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Government
Publications

Ontario. Legislative assembly. [Committees]
Select committee on consumer credit
Hearings

SELECT COMMITTEE ON CONSUMER CREDIT

Proceedings of hearings held at the
Parliament Bldgs. Toronto, Ontario,
on the 17th day of August, 1964





August 17, 1964

1 THE CHAIRMAN: Gentlemen, now that
2 we have a quorum we will proceed with the meeting.

3 We are about to hear from the Retail
4 Council of Canada and I would ask Mr. J. P. Weir, Q.C.
5 if he would introduce those who are here today represent-
6 ing the Council.

7 MR. WEIR: Mr. Chairman and members of
8 the Committee. Mr. J. R. O'Kell, the Secretary of
9 Simpson-Sears Limited is with me as is Mr. Liston, also
10 from Simpson-Sears, General Credit Manager. Mr. J. W.
11 Erwin, Chief Accountant with T. Eaton Company and
12 Mr. W. Upshall, Credit Manager of the Contract Accounts
13 Office and formerly Credit Manager of the Toronto store.
14 Mr. Simmonds, the Credit Manager of Gordon McKay; Mr.
15 Fletcher, the Comptroller of Henry Morgan, the Toronto
16 and Hamilton Division and Mr. McKichan, beside me,
17 who is the General Manager of the Retail Council of
18 Canada.

19 Mr. Moore, the Provincial President
20 of the Retail Merchants Association of Canada is present
21 and has asked if you will permit him to introduce his
22 delegation before we proceed.

23 THE CHAIRMAN: That's fine. Would Mr.
24 Moore care to do that now?

25 MR. MOORE: Thank you, Mr. Chairman.
26 I would like to introduce particularly the members who
27 are with us from Toronto. Mr. W. Boys of Woodstock
28 and Mr. Donald Rolling, the Assistant General Manager
29 of the National office. Mr. Heer of Kitchener (rest
30 inaudible).



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1 THE COMMITTEE: Thank you. Now, we all
2 have a copy of the brief of the Retail Council of
3 Canada and we will proceed with hearing that now.

4 MR. WEIR: Thank you, Mr. Chairman.

5 Gentlemen, I propose, with your
6 permission, to read the first two or three pages, which
7 are introductory, and then I propose to expand a little
8 in places to make sure that we understand the system
9 and I may say the first part of this brief, Mr. Chairman,
10 is chiefly concerned with giving you a picture of the
11 actual facts of operation, then we come to what we call
12 discussion opinion as we go along.

21 The Council is an incorporated
22 organization which was formed to represent and promote
23 the interests of its members in the retail industry
24 generally. A list of its direct members who carry on
25 business in Ontario is set out in the schedule attached
26 hereto. There is a list following page 10 of the
27 brief which begins with Aikenhead and goes down to
28 Zeldin, so you see it represents many of the important
29 retail organizations. Some, of course, are across
30 Canada in their application and there are, of course,



1 members who don't live in Ontario who have been omitted
2 from this list. This list are the direct members who
3 have business in Ontario.

4 Not all of those members are, of course,
5 concerned with the credit granting process. This
6 submission, which was prepared under the direction of
7 a Special Committee of representatives of Council
8 members, has been submitted to the Ontario membership
9 and has met with their approval.

10 This submission has been endorsed by
11 the Canadian Jeweler's Association of Canada, Canadian
12 Retail Furniture Association, who are an affiliated
13 organization of the Council, Retail Merchants Association
14 of Canada, Inc., and the Retail Merchants Association
15 of Canada, (Ontario) Inc., also endorse the terms of
16 this submission and have requested that the fact of
17 their organization's endorsement be brought to the
18 notice of the Committee.

19 The Retail Merchants Association of
20 Canada Inc., a national organization, has a paid up
21 membership of over 20,000 paid up members and continues
22 to act as a spokesman for an additional body of former
23 members who have retained some connection with the
24 Association.

25 The Ontario organization has an active
26 membership of over 4,000 members and again is considered
27 spokesman for a considerably larger body of provincial
28 retailers.

29 We think, therefore, that this information
30 can therefore be taken to be representative of the



1 majority of all retailers who have some trade
2 affiliation and are concerned with the credit granting
3 process.

4 Prior to the War, sales by retailers
5 on time or installment payment terms were principally
6 in large items such as pianos, refrigerators or large
7 pieces of furniture. These sales required completion
8 of a separate contract in which the goods were listed
9 and described, the terms or conditions set out and
10 the right of the vendor to repossession of the goods
11 detailed. If another purchase was made the same
12 procedure was repeated and the buyer entered into a
13 new contract, again showing the goods in detail and
14 the terms of the contract. Some retail firms found that
15 some classes of their merchandise were very infrequently
16 purchased for cash and the prime interest of the
17 customer was, "How much down, how much per month for
18 how many months?" These firms began to quote prices
19 not as cash prices but as a price that included all
20 service charges. So a set of bedroom furniture would
21 have no cash price, but would be priced as "Down payment
22 \$25.00, and 18 months repayment of \$20.00 each." If
23 a purchaser wished to pay cash initially or to pay up
24 the balance part-way through the contract, the amount
25 of discount, if any, off the time price would always
26 be the subject of bargaining. And, Mr. Chairman, our
27 surveys indicate that in the retail field as such -- by
28 that I am thinking of the kind of goods you ordinarily
29 think of going to a retailer for, or even one of the
30 larger department stores -- this is not an accepted



1 practice today, it has almost disappeared. It is still,
2 of course, found in some other areas, particularly
3 some areas of door-to-door selling, but it doesn't
4 appear very much now. It was actually, in past years,
5 a feature of retailing.

6 A second development is the practice
7 of some firms of putting part of the charge for the
8 installment payer's service on the price of the article
9 and some as a direct charge. This technique enabled
10 a firm to advertise intallment terms at 5%. The
11 original cost of the artificially low credit terms were
12 of necessity reflected in the price of the article sold.
13 By and large these practices have been abandoned in
14 retail store credit. The public is given a cash price
15 and the amount of the installment service charge and
16 in addition types of accounts have been developed to
17 afford an opportunity to purchase a wide variety of
18 goods and to provide quick, efficient service. One
19 type of account quite widely adopted is known by a
20 variety of names, but we will call it, for purposes
21 of description, by the simple term cycle credit. It
22 demonstrates the system used by one junior department
23 store organization (rest of sentence inaudible)

24 The customer seeking credit goes to
25 the customer's accounts office where he or she will
26 discuss with a trained worked the customer's requirements.
27 In small stores this function may be performed by the
28 Manager or Assistant Manager. The interviewer obtains
29 from the customer and other sources details of income,
30 family and other obligations. The employee seeks to



1 have the customer recognize that on the basis of family
2 income wise use of credit requires the family to limit
3 its credit purchases so that the monthly payment will
4 not be onerous. The account being opened, the customer
5 receives a card authorizing purchases, a brochure
6 explaining the operation of the account incorporating
7 the minimum of monthly payments applicable. If the
8 customer makes purchases on the account and pays for
9 them within 15 days after the monthly billing date,
10 no service charge is applied. Each month the customer
11 receives a statement of the previous month's balance
12 and the purchases made in the month, any payments and
13 the balance outstanding at the end of the month. Also
14 shown is the service charge. On the back of the
15 statement is printed the service charge table and it
16 is pointed out that the customer may reduce service
17 charges by increasing the amount paid. A copy of
18 both sides of the customer's statement appears on the
19 following page. You will see there, Mr. Chairman,
20 that if you have one of these accounts in the top
21 left hand corner will be a billing date. This will
22 differ from customer to customer permitting the accounting
23 process to take place during the month instead of all
24 at the end. Then his previous balance, the balance
25 he has left unpaid on that billing date is entered
26 and then a service charge based on the table at the
27 bottom of the page is entered. His purchases are then
28 listed, his returns, his payments and the balance now
29 owing.

30 Now, if a purchaser is not interested



1 in having any time element beyond the 30 days involved,
2 he may, of course, borrow from a bank or something
3 of that kind or just use his paycheque to pay it and
4 there is no service charge whatsoever if he pays within
5 the 15 days allowed after the rendering of this account,
6 which, of course, can be anything up to 40 days from
7 the day he purchased the article, depending on what
8 time of the month he purchased it, even 45 or 50 days.
9 Then it is shown on each statement, and this appears
10 on the back of every statement, that while we have
11 taken this from one smaller group of stores, I can
12 tell you that this is representative of the way this
13 account is operated right across the Province by both
14 the big and small stores. I won't say there might
15 not be some variation in the service charge, but a
16 very modest change.

17 Now that is one type of account. I
18 think it is the most widely used and encouraged type
19 of account by most retailers operating with any volume
20 in Ontario at the moment. It is, of course, a great
21 convenience to the customer and to the business because
22 the customer doesn't have to make any decision until
23 his account is rendered -- he can use it just as a 30
24 day charge account and he is encouraged so to do. On
25 the other hand if he buys a refrigerator or something
26 very large on it, he then uses it and he determines
27 pretty well how much service charge he pays, because
28 if he gets a bonus some month he can put it on that
29 month's bill and thereby reduce his cost of carrying
30 the account.



1 The second type of account -- I think
2 for the purposes of your Committee's relationship
3 with the retailers generally, these two types of
4 accounts pretty well tell the whole story. There may
5 be very slight variations but basically these are
6 the two types of accounts used. The second type as
7 called a budget or easy payment plan, sometimes with
8 the words "add-on". This is a significant phrase
9 because, as was explained in the early part of the
10 brief, when this business was younger it was customary
11 to have this interviewing process or discussion or
12 the working out of charges as such for a transaction
13 and then a complete new transaction, completely divorced;
14 that no longer takes place in anything but a rare case.

15 The second type of budget plan works
16 like the first excepting that things are specifically
17 at the time of purchase added to the account rather
18 than the decision being left to the customer when he
19 gets his bill and this is again the type of account
20 where there are add-ons once a month or once in six
21 months, any time before the account is paid up.

22 Now, again the customer makes his
23 merchandise selection and is sent with the sales slip
24 to the customer's accounts department. An interviewer
25 discusses and explains the contract with the customer
26 and makes him file his collective credit responsibilities.
27 Information is obtained from outside sources also. That
28 part of the process is the same as in the cycle account.
29 If the credit is authorized the customer receives from
30 the credit department a booklet, the first page of which



1 sets out the price, less payments then made, the
2 credit service charge, the balance, the monthly
3 payments and the date of the month on which it is to
4 be made. The contract reserves title to the merchandise
5 until payment is made. When the customer makes a
6 second purchase the clerk making the sale telephones
7 the account office and if the sale is authorized the
8 customer receives a new memorandum setting forth the
9 cash price of his new purchase, the credit service
10 charge, the price added to his service charge, a credit
11 for deposit, the balance on this sale and the new
12 balance and the monthly payment required. If the
13 customer wishes to pay up the account before normal
14 maturity a proportion of the service charge is credited.



1 ending the loan or any capital bonus that may be paid.
2 The credit account service charge is very different
3 from mortgage interest. The period of payment is
4 shorter, the amounts borrowed are much smaller and
5 the amount involved constantly varies because of new
6 purchases and payments. There is no durable asset
7 comparable to land as a security. All costs in connection
8 with documentation and continuous servicing of the
9 account are included in the credit service charge.

10 If I may stop there for one moment.
11 We are anxious that this Committee understands that these
12 two types of accounts are a system which the public
13 has found useful, it is in demand and provides
14 convenience and efficiency for both the public and the
15 merchant. On the other hand there has been so much talk
16 of rate of interest that we thought it would be important
17 that at least our view on this controversial question
18 be clearly stated, that whatever system is adopted it
19 should not be confused in any way in the public's mind
20 with interest rate. You think of yourselves -- many
21 of you, I am sure, through estates or otherwise have
22 made mortgage loans. You simply borrow money and you
23 get an interest rate, you hope to get the principal
24 without any more fuss. You are getting a fee or a rate
25 or a simple loan. Someone looks after all the costs and
26 other items involved in this, your Solicitor or someone.
27 Now, when you come to the merchant system, and I can
28 say to you that I am sure that all of you represented
29 here are not in the money lending business in any sense
30 of the word at all. They are not seeking any return on



1 the monies that become involved. These monies would
2 be more advantageously employed in additional inventory
3 and other places, but because of the demand of the
4 public, the build-up, all the aspects, they are in this
5 business and their credit service charge is to
6 recompense them for the fact that they have to borrow
7 the money, they have to do all this additional
8 accounting, they have to hire more salespeople, and all
9 the other factors that go into it. So that it is our
10 submission that you must recognize that the merchant
11 and the mortgagee cannot be equated in quantity or cost.

12 With the sincere belief that the
13 suggestion would be of value to consumers many groups
14 have advocated that legislation be introduced requiring
15 that the credit service charge be expressed as though
16 it were an annual interest rate. On the assumption
17 that it were practical to express credit service charges
18 as an annual interest rate, the practice would
19 undoubtedly lead people to believe that the rate covered
20 cost of money only. It would probably also lead to a
21 policy on the part of less responsible merchants of
22 concealing part of the charge in the price or other
23 elements of the transaction. It doesn't come from the
24 group represented here today, but I think this Committee
25 is by this time well aware that this practice has
26 existed in other jurisdictions and even to some little
27 extent exists in Ontario with reference to some classes
28 of trade. To try and achieve a competitive advantage
29 some trades express interest as 2%, that sort of thing,
30 they conceal the actual cost of extending the credit.



Expressing the service charge as an annual percentage would be quite impractical for cycle accounts and for budget accounts, the type mentioned above, the customer is permitted to make second and third purchases. It is not possible to calculate accurately the future service charges, to state the maturity of the credit nor to establish the effective rate of charges. Such calculations would have to forecast the purchaser's future buying or payment habits which at the time are equally unknown to both the seller and the purchaser. The purchaser can inspect the amount of the charges and any artificially determined effective rate by the date and amount of his purchases, the time he figures to take in making his payments or the size of his payments.

For example, purchases made during the month appear in the next succeeding statement as total purchases and then in the statement next following as part of the unpaid balance upon which the charges are made. The purchaser can extend his period of credit by buying immediately after a billing date, reduce the effective rate of the charges by making his payment late in the month just prior to the billing statement on which his purchases appear as the unpaid balance. Now if you take this at the extreme -- the man purchases on the second -- let's say his billing date is the end of the month -- he has no service charge that applies from the first to the end of the month, in fact his first service charge is applied at the end of the following month. He has had 60 days with no charge at all.



1 Now, nobody knows how much he is
2 going to pay in that 60 days as to what his next area
3 will be, or whether he is going to make an equal
4 payment, he is going to pay a little more on it or a
5 little less on it. And, of course, this whole plan
6 would have to be completely abandoned if these
7 calculations had to be made in advance simply because
8 the mechanics of trying to, even by some artificial
9 method, would, of course, be impossible.

10 These cycle plans are designed to
11 provide the purchaser with flexibility and convenience
12 of credit buying. From an operational standpoint
13 a salesclerk can't work out service charges on
14 individual purchases, so the plan relates service charges
15 to unpaid periodic balances. It cannot be assumed
16 that payments will be made in accordance with
17 prescribed savings, nor can it be shown how the
18 purchaser will choose to operate his accounts. The
19 use of dollar service charges on periodic balances
20 is the only functional way that this type of credit
21 can be made available.

22 Now while I don't go on with this
23 brief I should mention that the add-on, of course,
24 has many of the same elements simply because the clerk
25 who makes the second purchase is not in a position to
26 work out any rate. These contracts are for various
27 groups and various individuals all designed differently.
28 The school teacher invariably wishes, even if it's more
29 than a ten month contract, to skip the two summer months,
30 and then commence paying again. Various agricultural



1 communities work out their own system depending on when
2 crops pay off, when they will make their payments.

3 Similarly in the fishing industry you get various systems.

4 Again, right within the framework
5 of our own industrial society you find various patterns
6 requested because of some periods some member of the
7 family has an extra burden that comes up at that time
8 so there is a working out of a plan for the individual.
9 Now of course any artificial rate chart (rest inaudible)

10 The Council members are all aware --
11 reading from paragraph 18 on page 7 -- that the health
12 of the retail industry depends in large part on the
13 proper use of credit by the public and that each
14 merchant must avoid any abuse of public trust. The
15 Committee is obviously well aware, as are the members of
16 the Council, of the incomparable injury that could
17 be caused to the retail industry and to the economy if
18 any legislation conceived for the protection of
19 borrowers forced retailers to abandon the practices
20 that have proved so advantagous to both public and
21 merchant. It is the Council's belief that any action
22 taken in this connection at the expense of substantially
23 curtailing the total volume of credit granted, the
24 economy would suffer severe and immediate repercussions
25 in the short term, and in the longer term experience
26 slow growth. Retailers were provided with this proof
27 of the direct relationship between the free availability
28 of credit and health to the economy at the time of
29 the Korean War. At that time severe restrictions on
30 the granting of medium term consumer credit were



1 deliberately applied for reasons of national economic
2 policy. This action produced a drastic fall in the
3 volume of retail sales which in turn caused a sharp
4 drop in the level of activities in the consumer goods
5 market. The adverse effects were eventually felt
6 in every factor of the economy. It must be remembered
7 that the extension of credit to the degree required
8 by merchants today involves services and facilities
9 which do not vary directly with the amount of an
10 individual sale or the length of time allowed for
11 repayment. You will appreciate that a very active
12 account, even in small sums, will take a great deal
13 more of servicing and other costs than one large
14 purchase or two large purchases.

15 To require the translation of service
16 charges into so-called simple annual interest equivalents
17 will have these immediate effects:

18 A. Put an end to cycle credit and other flexible plans,
19 thus reducing the total volume of retail business
20 with serious effects on the whole economy.
21 B. Drive the cost of credit underground so that much
22 credit administration and other costs are hidden in
23 the price. If legislation is found necessary and
24 desirable, the Council submits the legislation, having
25 regard to the nature of presently developed plans and
26 practices, that the following principles be maintained.

27 In reference to cycle accounts:

28 A. That the contract between buyer and seller shall
29 state in at least ten point type the names and addresses
30 of vendors and notice to buyer: "Do not sign this



1 agreement before you read it or if it contains any
2 blank spaces you are entitled to a completely filled
3 in copy of the agreement, you are entitled to pay off
4 in advance the balance due at any time without notice
5 or bonus."

6 The amount of credit service charge
7 applicable to outstanding balances.

8 A. The seller shall provide to the purchaser on the
9 billing date succeeding the purchase at the address
10 given by him, the following information:

11 1. the cash sale price of the goods or services
12 purchased, the amount of any payments made in money
13 or in goods and the total credit service charge, includ-
14 ing fees, if any, applying to the outstanding monthly
15 balance. Seimilar requirements adapted for the kind
16 of contract being used should be provided for other
17 forms of retail credit. All contracts should provide
18 that repayment may be made before maturity with rebate
19 service charges where applicable.

20 2. all contracts should forbid

21 a. any lien or chattel mortgage on any
22 goods except those being purchased under the contract.

23 b. any assignment of wages, whether
24 effective before or after default.

25 c. any repossession of the goods after
26 two-thirds of the total price has been paid if the
27 value of the goods originally purchased is less than
28 \$500.00. These requirements should not apply to
29 transactions of a commercial nature between firms in
30 business or for business purposes.



14 THE CHAIRMAN: Thank you, sir. We
15 appreciate the fact that you have such knowledgeable
16 people with you today and I know it will be very
17 interesting to the Committee to direct any particular
18 questions they may have to the person who is best
19 equipped to answer it.

20 Mr. Sedgwick, do you have any
21 questions following this brief?

22 MR. SEDGWICK: Yes. Mr. Weir, please
23 sit down. You will, I know, appreciate that I first
24 saw your brief just today -- that is my fault I know --
25 and I believe that applies to the rest of the Committee.
26 So any questions I have are just off the top of my
27 head.



1 a price which was so much down and so much a month
2 and no cash price was quoted. At the present time
3 are there any branches of your Association that still
4 carry on that practice. By that I mean can you almost
5 invariably now buy for cash at one price and on credit
6 for a price which is the cash price plus the credit
7 charges?

8 MR. WEIR: Yes, sir, the simple answer
9 is yes. I think I could say to you that the surveys
10 that we have made within what I will call the retail
11 merchant area -- these are hard areas to define --
12 that people who operate stores as we know them, whether
13 department stores or individual units, the practice
14 has virtually disappeared.

15 MR. SEDGWICK: I see. I had in mind
16 the jewelry trade where I am told that for some years
17 there is one price for cash and there is almost
18 invariably a time price. That is not now the fact?

19 MR. WEIR: In recent years that seems
20 to have virtually disappeared. We know of no leading
21 jeweler that still maintains that practice although
22 it was quite current, I understand, as little as three,
23 four years ago. And many stores at that time operated
24 only by a credit price. If you paid cash you were,
25 in fact, paying a service charge.

26 MR. SEDGWICK: Yes, you were carrying
27 some part of the cost of the service charge for those
28 who bought on time. And as to the schedule of charges
29 which forms page 4 of your brief, am I to understand
30 that the service charges that you show there are



1 reasonably representative, or is there an accurate
2 thing? Are some more and some less?

3 MR. WEIR: These are reasonably
4 representative, I think. I have examined maybe eight
5 leading retailers in Ontario and I don't see personally
6 any significant variation. On the smallest balance
7 they might vary by a small percentage, but in the
8 middle ranges and the higher prices they all seem
9 to be about the same. This seems to be determined
10 by competition.

11 MR. SEDGWICK: Then on page 5,
12 paragraph 10, you say that the contract reserves title
13 in the merchandise until payment is made. In those
14 cases, I take it you tell them that this is a conditional
15 sales contract?

16 MR. WEIR: Yes, sir. I think I can
17 put it this way: The original document says that title
18 is being reserved on all merchandise bought under
19 this account.

20 MR. SEDGWICK: It was in my mind that
21 this is really meaningless --

22 MR. WEIR: There is some question
23 whether title can be reserved in general --

24 MR. SEDGWICK: Yes, without description.

25 MR. WEIR: All I can say to you is
26 it is certainly put in the contract.

27 MR. SEDGWICK: It has some moral
28 persuasion, I suppose?

29 MR. WEIR: I am told that is its
30 chief value, yes.



MR. SEDGWICK: I'm sure someone will ask you this if I don't. Looking at paragraph 13 on page 6 -- we know how difficult it is, maybe even impossible, to express an interest rate in connection with these types of accounts. I suppose approaching it from your standpoint there is an ingredient in the service charge which is the title to the money, isn't that right?

MR. WEIR: Well, this is very difficult to say. The merchant is using his working capital in the way he thinks best, whether it is to buy additional merchandise or otherwise. This takes some of his working capital whether he borrows it from the bank or whether he has it. His interest is getting it in as quickly as he can. Now, he does try to repay himself for the cost of that money to him as part of the transaction. He doesn't hope to lose money on the thing.

MR. SEDGWICK: No, but he isolates it consciously. is that right?

MR. WEBB: That's correct.

MR. SEDGWICK: I was just doing a quick sum -- and I don't want to tell you how bad my arithmetic is, Mr. Weir -- but it seems to me that on the \$5.00 and a charge of .10¢ a month, if the \$5.00 were isolated the rate would be, I think, 24%. Is that right?

MR. IRWIN: Yes, that's right.

MR. WEIR: That, of course, is not meaningful because he hasn't taken anything for 60 days.



1 MR. SEDGWICK: I'm just taking a
2 figure and multiplying by twelve. I agree with you
3 that it isn't very meaningful because there are unknown
4 factors.

5 MR. WEIR: You appreciate, of course,
6 that the .10¢ couldn't hope to pay for looking after
7 the account.

8 MR. SEDGWICK: No, this would hardly
9 pay for the cost of sending --

10 MR. WEIR: That's right, a four cent
11 stamp or five cent stamp --

12 MR. SEDGWICK: Then, for myself, I
13 must say I find it extremely helpful, the suggestion
14 that you make on page 8, paragraph 22. May I take
15 it the practice that you there suggest might be
16 recommended by this Committee is not at the present
17 time (rest of sentence inaudible)

18 MR. WEIR: No. We would like to
19 say that we think the great majority of retailers
20 in Ontario, and they are the responsible retailers,
21 in practice do this now and we are suggesting that
22 it may be to protect the public from -- I don't know,
23 you might say the marginal possibility that there are
24 some retailers who would be tempted to betray the public
25 trust, it might well be wise to make it a legal require-
26 ment. But as far as our investigations show it does
27 appear to us that the merchants of Ontario are not
28 betraying their trust. They are trying to make clear
29 to their customers exactly what the contract is. They
30 are endeavouring to encourage the customer not to



1 overextend himself and certainly they are endeavouring
2 to persuade him to pay as quickly as he can and avoid
3 the service charge. I think we can say that generally
4 speaking this is the attitude of the members of the
5 Council and those who aren't members but with whom
6 we are in contact.

7 MR. SEDGWICK: As to the suggestion
8 which is number 22 on page 9. I haven't studied it
9 in detail but it seems to me that the sample on page
10 4 does inform -- is that right?

11 MR. WEIR: Yes, sir, it does. We are
12 just saying that if there is any tendency for someone
13 to get into this business who really is not a merchant
14 but is trying to make a little money on the side or
15 something, it might be wise to have such regulations.

16 MR. SEDGWICK: Yes. That is the
17 practice that is now followed by reputable merchants
18 and it might well be made compulsory for those who
19 are not so reputable.

20 MR. WEIR: I think I should tell you
21 we examined these in the light of the present regulations
22 in New York State and they follow along pretty closely
23 and we have had advice that they have worked out extremely
24 well in New York State to prevent some abuses that were
25 there and to prevent this business of hiding the charges.

26 MR. SEDGWICK: You anticipated me.
27 As to paragraph 25, I'm not sure about this but I
28 believe that in a number of jurisdictions there are
29 regulations that do provide what you have suggested.
30 Is that correct? Is it so in New York, Mr. Weir?



1 MR. WEIR: Let me put it this way.

2 I have examined too many -- I hate to say this
3 specific to New York, I have a New York one here, but
4 at the moment my advice is that all three items in 25
5 are requirements in New York State.

6 MR. SEDGWICK: (Inaudible)

7 MR. WEIR: No, again they are pretty
8 close -- they either have one or two more.

9 MR. SEDGWICK: Would you like to say
10 what your losses are?

11 MR. WEIR: I think there is a very
12 conscious endeavour on the part of all the larger firms
13 to have good cost accounting. And remember the small
14 merchant is putting the time of the people who are
15 senior on credit, of necessity, because as I said
16 earlier in the brief, in the small store probably
17 the Manager or Assistant Manager is having to give
18 some of his time to this because of the nature of it.
19 But I think it is fair to say that in the larger stores
20 and those who can subdivide the work to get true
21 costs. There is a very conscious endeavour to make
22 the credit customer pay his way but not to add to the
23 gross profit of the article.

24 MR. SEDGWICK: I wasn't thinking of the
25 question in that context. I was thinking of the
26 percentage of one of the () who are extending
27 credit.

28 MR. WEIR: Oh, I'm sorry, I misunder-
29 stood your question. Yes, I think I can say to you
30 that experience indicates that over a very wide range



1 of stores it varies between 3/4 of 1% and 1% and a
2 percent point above that.

3 I'm sorry, Mr. McKichan tells me
4 that he has extended the survey and it is as low
5 as 1/2 of 1% and I think it has gone a percentage
6 point over 1 in some examples.

7 MR. SEDGWICK: Expressed as a
8 percentage of total sales?

9 MR. WEIR: Total sales in the period,
10 yes.

11 MR. SEDGWICK: That's all the
12 questions I have, Mr. Chairman. Thank you.

13 THE CHAIRMAN: Mr. Irwin, do you
14 have any questions?

15 MR. IRWIN: Yes, Mr. Chairman. Mr.
16 Weir and your associates, as you probably are well
17 aware, this problem of the feasibility and desirability
18 of expressing service charges in relation to the
19 lending of money as an interest rate percent per annum
20 is one of the prime considerations before the
21 Committee. And I do have to say this in regard to
22 all you have said about cycle accounts, there isn't
23 any quarrel. It is mathematically impossible to arrive
24 at any appropriate mathematical representation of the
25 charges in terms of a rate percent per annum so that
26 they would be comparable. One other thing I would
27 like to agree with you on is that I agree that the
28 businessman, and I have as you know had some experience
29 with these people-- there is no question in my mind
30 that in most cases, in 99 out of 100 cases, they are



1 interested chiefly in doing business, in selling
2 their products and whatever they recover by way of
3 a service charge is not their primary interest. But
4 the thing that does concern me in this whole field
5 is the search for some common terms of reference, some
6 common terminology, a way of arriving at a universal
7 understandable expression of what service costs or
8 charges or the cost of money is so that the borrower
9 can compare one lending situation with another. So
10 if you will forgive my line of questioning and keep
11 that in mind. I am not against the businessman. I'm
12 trying to find if there is a common denominator.

13 I'd like to ask one question about the
14 cycle account, although I agree with you in your
15 conclusions about it and I have no answer to the cycle
16 account, certainly not at the moment. But you did
17 make a point of referring to the circumstance where
18 a person, for example -- let's assume that the billing
19 date is the 31st of the month just for convenience.
20 A person might place a charge against his account of
21 \$100.00 on, let's say, the 1st of the month and no
22 other charge of any kind for 60 days. Therefore, at
23 the end of the first month he would pay no charge but
24 when his account was rendered at the end of the 60 days
25 then he would be charged, if it was an even \$100.00,
26 it would be \$1.45. Now, what about the other case?
27 Take it to the other end of the month? The billing
28 date is the 31st of the month and the charge is made
29 on the 30th of the month, the billing date passes and
30 the first day after the billing date he pays \$100.00.



1 Would he then be charged?

2 MR. WEIR: No, he wouldn't be
3 charged. If he lets it go until the 31st of the next
4 month --

5 MR. IRWIN: No, but he doesn't in this
6 case.

7 MR. WEIR: He pays nothing if he
8 pays it within a 60 day period, roughly 60. It can
9 vary from anything from 32 or 33 to about 58, in
10 practice.

11 MR. IRWIN: So in this case if a
12 man made a charge on the 30th of the month, he was
13 rendered a bill showing the service charge --

14 MR. WEIR: No, he doesn't -- it
15 doesn't show, sir. Immediately following page 3 --

16 MR. IRWIN: Yes, that's what I'm
17 looking at.

18 MR. WEIR: In the first column there
19 it would have 1, being the day of the month on which
20 his bill is rendered. He would then have, if he had
21 no purchases on that day, no previous balance, he
22 would have zero in there. He would have no service
23 charge and then he would have the purchases in the
24 thirty days preceding the bill in the column on the
25 right.

26 MR. IRWIN: Yes.

27 MR. WEIR: Then he would have any
28 payments he had made in that thirty days and then he
29 would have the balance. Now, if he doesn't pay that
30 balance it will appear as the previous balance the next



1 month, but if he could go to his brother-in-law and
2 borrow \$25.00, then he could pay it on the account
3 and he would never pay a service charge. He could go
4 to a bank if he feels he can get better terms, he can
5 make his arrangements with them, or go to his credit
6 union and he pays nothing. And the merchant, I may
7 say, is more than happy.

8 MR. IRWIN: So in this particular
9 case, at any rate, the account must be outstanding
10 at least thirty days before a service charge is made?

11 MR. WEIR: Yes.

12 MR. IRWIN: Is that common amongst
13 all the users of --

14 MR. WEIR: We have examined these in
15 ten major stores, at least, department stores across
16 the country, and every one is operating on this.

17 MR. IRWIN: That's a very interesting
18 slant on the thing.

19 MR. WEIR: It's done for two important
20 business reasons. One, so the salesman is not involved
21 in the credit transaction at all. Secondly, so that
22 the customer is encouraged -- you give him this long
23 period to get his money in, whether it is saving it
24 out of his next paycheque or making other arrangements,
25 you encourage payment. Even the .10¢ on a \$5.00 --

26 MR. IRWIN: I'm satisfied on that and
27 as I say I agree with you about the flexibility. I
28 don't know that the suggestions made on page 8 are
29 the whole answer at the moment. I speak for myself --

30 MR. WEIR: We are not suggesting for



1 one minute that we have had the time or the opportunity
2 to see it in a wider context. We wanted to indicate
3 primarily to the Committee that we are anxious to
4 assist in any way we can. These are just suggestions
5 put out for discussion. We will be pleased, and I
6 want to emphasize this, to reexamine with the
7 Committee or with these experts or advisors and be
8 prepared to discuss their ideas. We have lots of
9 people with a great deal of experience and we feel,
10 not as part of any credit system but as part of the
11 general retail credit and the health of the secondary
12 industry that it is very important that any laws that
13 are made preserve the thing that we are trying to
14 regulate, not be regulations which because of their
15 technical aspects are damaging to our clients, to
16 manufacturers, to all the secondary industry of the
17 Province. We have to concede without the retailer
18 recognizing this public demand, even for 60 days, so
19 that the man can make the arrangement for paying,
20 we can't hope to maintain this level of retail trade
21 or the present level of industrial, secondary
22 industrial economy.

23 MR. IRWIN: Thank you, Mr. Weir. As
24 I say, there is nothing much more to say on the cycle
25 account, but would I be right in saying that the
26 comments you made in relation to the cycle account
27 and the rather difficult problems of determining or
28 relating the service charges to a rate percent per
29 annum, or an interest charge, do you extend those
30 comments to apply to other types of retail financing,



1 other than the cycle account?

2 MR. WEIR: Let me put it this way:

3 With what I call for the moment here the budget account
4 as it presently is now, you have to isolate me from,
5 say, the man who sells one big expensive thing like
6 a \$3,000.00 piano. I wouldn't like to say where you
7 are dealing with one customer in one thing where you
8 predict the whole course of payment and that sort of
9 thing, that you can't have variations, but when you
10 look at the budget account that is operated by larger
11 retailers and it is operated for items as small as
12 \$20.00 to \$50.00 or \$100.00, then I would say that
13 what has been said about the cycle account is equally
14 true, a little more difficult to explain, but equally
15 inhibitive because again the girl at the point of
16 sale has no discussion with the customer. She writes
17 out a slip and finds out that this man has an
18 account in good standing, then the account is now
19 put together again and a new set of terms of payments
20 and a new period of credit and what not worked out.

21 MR. IRWIN: In other words there is
22 a new contract every time there is another purchase?

23 MR. WEIR: Well, it's an old contract
24 with add-ons. There is a new calculation of length
25 of payments, terms of payment and service charge based
26 on the experience with the account up to that time.
27 You have to pay an overbalance, you add something on,
28 they work out now what is a new, sensible monthly
29 balance for you, having regard to the new balance in
30 the account, how many months it is reasonable to put that



1 on and the service charge to try and compensate.
2 I don't want to go too deeply into the technical
3 aspects of this. I have people here who will discuss
4 it with you. It would take an hour or so to explain
5 the procedure. I can only go this far -- anything
6 we have seen has a written calculating system, if
7 I may put it that way. I don't feel completely
8 competent to discuss every aspect of that type.

9 MR. IRWIN: The budget account as
10 I understand it and as you have described it is
11 a little closer to being subject to calculation than
12 cycle accounts?

13 MR. WEIR: I don't say it's easier.
14 It's easier for me to explain the cycle accounts --
15 let's put it that way. It will work for a budget
16 account with add-ons as used by the retail merchants.
17 I don't want to say budget accounts used by other
18 kinds of industry. I say as used by the retail
19 merchants of Ontario, any scheme we have seen, a
20 rate calculation would inhibit it much like the
21 cycle accounts.

22 MR. IRWIN: Well, it's a step nearer,
23 I think, if I may say that.

24 Now, what about, would you extend
25 your remarks to the retail conditional sales contract,
26 where there is one item bought, stated terms throughout
27 a period of time which presumably --

28 MR. WEIR: We have little or no
29 experience among our members in that field. I know of
30 none of them that we have had discussions with to



1 prepare this brief who are actually in that business.
2 We do, and in the discussions we have had leading
3 up to the presentation of this brief, we did acquire
4 some information about this in other areas and we
5 again discovered that here is the area where hiding
6 charges still lives as a means of competing because
7 we recognize when you get in a very large expensive
8 piece of merchandise the price competition can never
9 been quite as keen because there is always a variation.
10 You just think of your car, the variations between
11 two makes of car even of the same relative horsepower
12 are very great. One has chrome and one hasn't and
13 such. Consequently there is much more opportunity --
14 I'm not saying this about the car business alone, I'm
15 just thinking of any expensive, even a very expensive
16 refrigerator, there is room to compete by hiding
17 the service charges. Therefore we are sure that
18 there are elements of the industry who would welcome
19 something in the way of regulations because this
20 would permit them to reprice their merchandise and
21 say we give you a cheaper rate than any of the leading
22 department stores.

23 MR. IRWIN: In effect your brief is
24 directed specifically to problems inherent in the
25 cycle account and the budget account and you are not
26 making any particular representation in regard to
27 any other type?

28 MR. WEIR: No, we don't feel we have
29 the experience in our members to do that.

30 MR. IRWIN: Yes, I understand. Then



1 I would just like to ask a couple of other things, and
2 let it go at that.

3 In paragraph 11 -- and I know you
4 are talking about the cycle account or budget account --
5 is there any generic difference between the charge
6 made by a mortgage company for its mortgage? The
7 mortgage company has to obtain pure interest, that is,
8 interest on the money *per se*, and it must also
9 recover out of its revenue, which is made up of
10 interest for money received on mortgages, it must
11 also recover its administrative costs. Now where
12 is the difference? In other words, the money that
13 the mortgage company is charging, I think -- and
14 the mortgage people were here before us and said that
15 it is true that the charge they make, figured as a
16 rate percent per annum on the principal balance,
17 includes pure interest recovery plus recovery of
18 their costs with the exception of two -- legal costs
19 and surveys, if applicable. So what is the generic
20 difference? Certainly they said that their charge,
21 which is stated as a rate percent on the principal,
22 does include the recovery of their administrative cost.
23 Where is the generic difference?

24 MR. WEIR: You use a word like "where
25 is the generic difference" -- I am not completely
26 clear. I wish Mr. Sedgwick would help me as to exactly
27 all the connotations of the word "generic". But I
28 would say we think there is all the difference as day
29 and night. Now maybe "day and night" are of the same
30 genre, but the problem is this: We are not loaning



1 money, we are selling merchandise. Loaning money
2 is an incidental business to this in the sense that
3 we have to forego the use of that money to some other
4 end of our business. Second, we have an amazing
5 variety of these small transactions, small payments.
6 Now the mortgage company doesn't meet any of this.
7 He starts out with a security to evaluate, to check
8 this man's title, that he has a large, durable thing
9 like a good lease on a shopping centre or something
10 of this kind, and he has one contract and he has a
11 predictable set of payments, absolutely clean and
12 clear and you know that the day you are late on this
13 payment you threaten this very large security.
14 Now he is in a different circumstance, more different
15 from department stores we are discussing here or
16 any of the individual merchants than it is possible
17 to imagine. The fellow send in \$5.00 this week,
18 \$7.50 the next, he keeps buying new items, this kind
19 of thing. It's a completely different thing. The
20 merchant could not sit down and say, "Now I've
21 got \$50,000.00 I'm going to put out in my credit
22 account and get some money back". This isn't possible.
23 He's got to have merchandise to sell before he can
24 move a dollar of that. Secondly, all his accounting
25 is so unpredictable. One customer costs him a great
26 deal more than another. Now the mortgage man predicts.
27 Three men each borrowing \$50,000.00 and he gets
28 exactly the same profit.

29 MR. IRWIN: That is true on an
30 individual case, but having had some experience with



1 retailers, the rates that they finally determine
2 upon are the result of statistical history, average
3 for a very large population of accounts.

4 MR. WEIR: We are glad to hear this,
5 sir. I don't think the people I have talked to have
6 been able to establish this excepting that it is
7 very largely (rest of sentence inaudible). You are
8 thinking of having a department store, junior or
9 senior, and your prediction is that you are going
10 to have to get another quarter of 1% or 2% to repay
11 you for your cost. I don't think you will find
12 your customers will accept this, an increase in the
13 service charge, let us say.

14 MR. IRWIN: I think I could suggest
15 to you that somebody, in order to attract a great
16 deal of business started to cut those rates arbitrarily
17 and without foundation in half, and then found that
18 they couldn't really do business with that then
19 the competitive rates would come down a little and
20 this would come up a little and an equilibrium would
21 be found.

22 MR. WEIR: It is unrealistic to deal
23 with each individual account and all the costs
24 involved --

25 MR. IRWIN: It's a statistical
26 average --

27 MR. WEIR: You are quite right, Mr.
28 Irwin. I think I misunderstood your question.

29 MR. IRWIN: Well, I won't belabour
30 this. I think what I wanted to bring out was, and I



1 would be pleased if somebody could solve this to
2 my satisfaction, that the charge made does include
3 an element of interest, indeterminate it's true, but
4 it is an element of the service charge. And the
5 same thing is true of mortgages.

6 MR. WEIR: If interest represents
7 the return you expect from lending your money out
8 it's one thing. If interest means what you have to
9 pay to have money available for this type of
10 financing, then I have to concede these service
11 charges include an element of cost to the merchant
12 whether it's money he should have put into inventory
13 or if he has to specifically borrow it because his
14 number of customers requiring credit go up. Now if
15 that's interest of course there is certainly a cost
16 to the merchant of this money being in this pot
17 rather than a new store or buying new fixtures with
18 it so he can have another place.

19 MR. IRWIN: Well, the striking
20 analogy, the insurance company has no money of its
21 own, it has to borrow it all. So that the same
22 applies. When they charge a rate percent of interest
23 they are merely recovering the cost of the money
24 that they must pay to their policyholders --

25 MR. WEIR: Our experience would
26 not indicate that there are any merchants in the
27 general merchandising business -- by this I mean the
28 people who run stores where you buy your family and
29 your children's clothing and all the things you want --
30 it is not our experience at the moment in Ontario, the



1 general merchants are deriving what I could call a
2 profit from interest.

3 MR. IRWIN: Well, I wasn't raising
4 the question of profit. I don't know whether I made
5 myself --

6 MR. WEIR: No, no, I meant an
7 increase -- X plus 1.

8 MR. IRWIN: There isn't in my mind
9 anyway yet any great fundamental distinction. I
10 recognize the problem of the type of account and
11 the budget account, but beyond that I can't yet see
12 that there is any real significant difference.

13 One other question and I'll stop,
14 Mr. Chairman. I'm sorry to take so long. On page 18 or
15 paragraph 18, page 7, you do -- even starting at
16 the beginning of page 6, the mention of the Korean
17 War, on page 8 -- at any rate what I read from this is
18 that it is the opinion of the Retail Council that
19 the regulation of credit granting by imposing the
20 declaration, let's say, of a rate of interest in a
21 situation or other things that could disturb the
22 pattern of present credit practices would have a most
23 serious economic effect. That's the first time, I
24 believe, that anybody has ever dealt with this subject
25 which I think is a very fundamental one and I think
26 it should be pursued. But before you answer that
27 I would like to make one commentary, and it is only
28 my own observation and opinion, but during the period
29 of the Korean War the restrictions that were imposed
30 requiring a specified down payment and there was a



1 general discouragement of the extension of credit by
2 other means -- I don't really think that that is a
3 fair analogy to what this Committee is pursuing.

4 MR. WEIR: I'm not familiar in
5 full terms of what this Committee has been pursuing.
6 The wording is expressed in paragraph 18, that by
7 failing to look at the merchant, if we don't think
8 of him as being in the same business as people who
9 make small loans or people who sell single big
10 articles or people who do door to door encyclopaedia
11 selling or something of this kind. We are people
12 who are in business with premises and merchandise
13 on display, advertising tells you what the price of
14 socks are or the prices of any other thing carried
15 by the general merchants of Ontario. Now these general
16 merchants are concerned that in an attempt to deal
17 with people who are not in this business without
18 a full understanding of the practices in this business,
19 laws could be developed which would cause the general
20 merchant to seriously restrict the way he did business
21 in this area and we would have an analogy. If you
22 tell every merchant in Ontario that he must stop next
23 Thursday from letting his shoppers shop on these
24 cycle or budget add-on credit accounts, we do think
25 you would bring about a situation as bad or worse
26 than the Korean War situation. We are only
27 concerned that the general merchant, that his end of
28 the business be fully understood before such laws are
29 written. We are not suggesting what aims this
30 Committee is pursuing, we are not familiar with that,



1 I'm afraid.

2 MR. IRWIN: Thank you very much,
3 Mr. Weir. I think this is a very important avenue
4 to pursue, the economic factor.

5 MR. WEIR: That's why we are so
6 keen that we tell the Committee that in drafting
7 of any regulations which our members would be
8 responsible and everybody in our trade would be
9 responsible for, but not to get at some irresponsible
10 trader in some little area. There are laws written
11 which could have this serious effect.

12 THE CHAIRMAN: We are pleased that
13 you mentioned that in the brief and I think this is
14 the first time that it has been referred to. Of
15 course I am sure the members of the Committee have
16 been giving that some consideration.

17 MR. SEDGWICK: Mr. Chairman, may
18 I ask one more question. Do I take it, Mr. Weir,
19 that in every case you have service costs in that
20 with every account you do send a monthly statement.

21 MR. WEIR: I should explain that
22 there are some forms of budget accounts where the
23 client or the purchaser is supplied with a booklet
24 which sets out that if he makes no new purchases
25 he mightn't get a statement. He purchases one item,
26 they set up the account, he's made no purchases during
27 the month and no adds to that and he gets a coupon
28 which he is expected to send in with his payment.

29 MR. SEDGWICK: That would be
30 comparatively rare?



1 MR. WEIR: Yes.

2 MR. SEDGWICK: But ordinarily you
3 would have the work of the statements, the collection
4 and the revised statement which incorporates any
5 new purchases?

6 MR. WEIR: Yes.

7 THE CHAIRMAN: Mr. Whicher, do you
8 have any questions?

9 MR. WHICHER: I would like to say
10 that I am very impressed with the brief. I certainly
11 have learned a lot this afternoon. However, there
12 are a couple of questions that I would like to ask
13 you.

14 MR. WEIR: I hope you appreciate
15 the fact that it's the odd question -- mind you I've
16 been at this for three months and I don't feel that
17 I fully understand all the implications or even
18 all the details and that's why I brought such a
19 large crew of experts to help me if we get into
20 difficulty.

21 MR. WHICHER: When a customer pays
22 this service charge do they pay any minimum or
23 maximum monthly balance?

24 MR. WEIR: I think I can explain that.
25 Let me just use an example. Say for the moment you
26 are a new customer. The first time you get one of
27 these there will be no previous balance and there
28 will be no service charge, so you will pay a net balance.
29 You bought \$100.00 worth and you paid nothing so you
30 have left 100 in that right column. Now the next time



1 it is picked up your billing date will be in and
2 now you will have a previous balance of \$100.00. So
3 you look down at the table and from 90 to 100 dollars
4 it is \$1.45, so \$1.45 will be marked in the service
5 charge.

6 MR. WHICHER: Now supposing there is
7 that \$100.00 previous bill, before I send in my
8 payment on that hundred dollars I make a further
9 purchase of \$50.00, will I pay on the \$150.00 or
10 will I --

11 MR. WEIR: It will still be \$1.45
12 and you will have another 30 days to decide whether
13 you are going to let that 50 attract a service charge
14 or whether you are going to pay it or pay half of
15 it.

16 MR. WHICHER: Now I'm going to take
17 this up 60 days later. Do I pay on the maximum or
18 the minimum?

19 MR. WEIR: No, you pay now on \$145.00
20 which will be \$2.05.

21 MR. WHICHER: Now you said -- of
22 course I believe you -- that there is no profit
23 financially to this.

24 MR. WEIR: Let me make my statement
25 as clear as I can get it, from the discussion I have
26 had. That is that the retail merchants as a group
27 find that their costs of operating these accounts,
28 their costs of borrowing the money to keep the wheels
29 going around, provide no profit from this department,
30 as it were. Now there is profit on the sale of the



1 merchandise which would not otherwise be sold.

2 MR. WHICHER: I want to give you
3 one example. Let's take the last one. Let's take
4 \$240.00 and the monthly charge is \$3.20 which comes
5 to \$38.40 per annum.

6 MR. WEIR: All right, you take
7 \$3.42, is that what you had in mind?

8 MR. WHICHER: No, I had \$3.20 on
9 \$240.00.

10 MR. WEIR: I see what you mean, yes.

11 MR. WHICHER: That would be \$38.40
12 service charge per year. If the man pays nothing,
13 if he just keeps on buying what he pays in, if his
14 balance is \$240.00 he pays \$38.40 service charge
15 per annum.

16 MR. WEIR: We have the initial
17 balance of \$240.00 --

18 MR. WHICHER: Yes.

19 MR. WEIR: The payment on that --
20 we haven't got it here, but say it's \$20.00 a month --

21 MR. WHICHER: No, sir, it's \$3.20.

22 MR. WEIR: But I mean payment, say
23 it's \$20.00 a month, right?

24 MR. WHICHER: Right.

25 MR. WEIR: Now I'm going to suggest
26 this, that he pays the \$20.00 and makes a third
27 purchase of \$20.00 the same month. So you get a
28 net balance for the 12 months of \$240.00 a year?

29 MR. WHICHER: Yes, sir.

30 MR. WEIR: We have had twelve changes



1 in the account?

2 MR. WHICHER: That's right.

3 MR. WEIR: Now this comes to \$38.40
4 service charge per annum on a balance of \$240.00.
5 I agree with you that we mustn't put this down as
6 interest but if we did put this as interest it
7 would be 16%.

8 MR. WHICHER: Right.

9 MR. BUKATOR: It's 16% for twelve
10 months or ten months, they allow it for 60 days.

11 MR. WEIR: Then we will make it
12 for 14 months. (Laughter).

13 MR. WEIR: Or for 16 months.

14 MR. WHICHER: All right, sir, I
15 accept your mathematics.

16 MR. WEIR: If we did this as interest
17 this would be 16%. Now it seems to me that many
18 merchants in the Province of Ontario -- and I'm think-
19 ing of the smaller ones, very small ones -- are doing
20 it a little bit cheaper. Would you agree with that?
21 By carrying twelve items per year on a balance of
22 \$240.00 -- I don't know, I can't answer that question,
23 sir. There may be some that would work out to \$3.00
24 service charge. I don't think the variation is more than,
25 say, that last item. Now it might be that you would
26 find a table that said \$2.45 to \$2.55, so you could
27 possibly get a switch there. But this man has had
28 a monthly credit transaction, every month he has had
29 some business with a customer so he is being indemnified
30 not only for the fact that his customer is using up his



1 banking -- he's had to borrow that \$240.00 from the
2 bank to carry this -- but he has had to do twelve
3 transactions and very unhappy ones because this
4 customer is not reducing his balance.

5 MR. WHICHER: Mr. Weir, if I buy
6 an insurance policy, a \$5,000.00 insurance policy
7 from the insurance company and the payments are
8 monthly, they are only too glad to send me a
9 statement twelve times a year?

10 MR. WEIR: Sure they are.

11 MR. WHICHER: I'm sure you are too.

12 MR. WEIR: Just a minute. We are
13 more than happy if we are going to get into transactions
14 in the realm of these figures of \$5,000.00. But
15 we are doing business -- the average account, I think
16 I can say, in the two leading stores in Toronto, are
17 well under \$200.00. In fact, they are nearere \$100.00
18 balance. They are a multiple of ten, twenty, three
19 ninety-five transactions. I'm not saying you
20 couldn't design a transaction and find it in the
21 experience of one of my clients that you couldn't
22 say well, this produced money compared with the
23 average account. This, of course, I'd have to
24 concede.

25 MR. BUKATOR: Would you say this
26 service charge is unknown to the public?

27 MR. WEIR: Unknown? I'm quite
28 satisfied that those who make large purchases have
29 a big balance and are, ~~maybe~~, something less than the
30 most prosperous, of course, find out whether their credit



1 union or their bank, if they are going to have to
2 carry this over a period of time -- a man buys a
3 very expensive refrigerator, he gets 60 days to shop
4 around. He sees this on his bill, he knows it, knows
5 what it is costing him. He's reading the newspaper
6 ads that say the bank will loan you so much money
7 for 12 months at so much a month. He's in a perfect
8 position to go to his credit union, his family in
9 some cases, some firms have plans where you can
10 borrow. And as I say the merchant -- and this we
11 find is almost universal -- the line at the bottom
12 of the text, it is printed on every one that you
13 can save on the service charges if you pay more,
14 indicating to me, at least, that the merchant is
15 much more keen on getting his money than getting the
16 service charge. You couldn't find any cycle account
17 printed in Ontario that didn't have printed on it
18 at the bottom, this sort of line -- please pay promptly
19 and reduce your service charge.

20 MR. WHICHER: I can see that this
21 is very incidental if you say that the average account
22 if only \$100.00. I don't think there is any problem
23 at all on that. But we have seen in the automobile
24 business their financing is not incidental any more,
25 it's the main business.

26 MR. WEIR: I tell you, sir, one of
27 the reasons we have put so much time and energy -- I
28 can tell you these group of men here and their employers
29 and other officers of their companies have put in
30 tremendous time in this presentation to come to this



1 Committee because we are so concerned that other
2 aspects -- and I don't mean specifically the
3 automobile industry -- but some other aspects of
4 selling on credit in Ontario, will be equated with
5 what I call the general merchandising business that
6 we are in. The experience in those field might be
7 assumed by the Committee to apply to us. We concede
8 that there have been, maybe still exist, some abuses --

9 MR. WHICHER: Well, I think you have
10 done a good job and I'm certainly on your side.

11 THE CHAIRMAN: Mr. Bukator?

12 MR. BUKATOR: I'm not going to be
13 quite as generous as Mr. Whicher is. I look at it
14 from a different angle here. Would you care to
15 elaborate on 20A on page 6? -- I'd better put my
16 glasses on, that's page 8.

17 MR. WEIR: Yes, sir. You see, we
18 have -- the terms of reference are to turn the
19 service charges into so-called simple annual interest
20 rate, that is to say, when we make a sale someone
21 must say to this customer if you finance this it
22 will be equivalent, the charges we will make will be
23 the equivalent of so many percent per annum. And we
24 say you have to stop this cycle account altogether.
25 We have discovered no means that this could be done
26 and give the flexibility of a cycle account because
27 you see we don't know what the purchaser is going to
28 pay. He may pay nothing in the 30 days, he may pay
29 half, he may pay one-third, he may pay 10%. Now we
30 know of no means by which we could, at the point of



1 sale say anything to him about this, or turn this
2 into an equivalent interest rate.

3 MR. BUKATOR: I was wondering how
4 it would, the volume of retail business with this
5 serious secondary effect on the whole economy, I was
6 wondering if your experts -- pointing to one of
7 the previous gentlemen who asked questions -- this
8 would indicate to me, but I stand to be corrected,
9 that the interest rate would vary from 16 to 24%.

10 MR. SEDGWICK: It is a simple and,
11 I'm afraid, misleading arithmetical calculation. It
12 ignores the facts, as Mr. Weir has mentioned, which
13 of course are not predictable. All I was doing,
14 Mr. Bukator, was taking the chart on page 4 and
15 translating the service charge into a percentage
16 against the balance, but there are two or three
17 fallacious deductions. One, of course, is that the
18 balance isn't constant.

19 MR. WEIR: Well, sir, if I may
20 explain. If you were to make a purchase -- and let's
21 take an even hundred dollars -- on the first
22 of January. A service charge will be added at the
23 end of February, it could be added as late as the
24 20th of February, and you would have until the 20th
25 of March to pay. Now you have had three months
26 and your only service charge is \$1.45. Now I don't
27 know what that, turned into an annual interest rate,
28 is, but I suspect it is quite nominal.

29 MR. REILLY: Well, could you make
30 it the interest at such and such a rate at that



1 particular time the way you do now with your service
2 charge?

3 MR. BUKATOR: Actually if it was
4 for two months it would be \$1.45 and multiply that
5 by ten, it would be \$14.00, which would be between
6 14 and 16% anyhow.

7 MR. WEIR: Yes, but for the first
8 two months you don't pay anything.

9 MR. BUKATOR: That's right, the \$1.45
10 is added on the third month -- on the \$100.00, is
11 it now? That's $14\frac{1}{2}\%$, as I calculate it -- for the
12 next ten months.

13 MR. WEIR: No, sir, I'm sorry;
14 added for that month. \$1.45 on \$100.00 -- that's
15 1.4%.

16 MR. BUKATOR: 1.4 on a particular
17 payment. 1.4 per period.

18 MR. WEIR: For three months -- one-
19 third of 1% per month. That's roughly 4% per annum
20 you pay if you turn that --

21 MR. BUKATOR: If you turn that one
22 payment only but I make reference to the fact that
23 this continues, as Mr. Whicher does, for the next
24 nine months.

25 MR. WEIR: If you make no payments.

26 MR. BUKATOR: Oh, I see, that's right.
27 But what I was trying to say was, if this is true,
28 if we come to anywhere between 16 and 24%, it would
29 appear to me that the economy of this country would
30 not be so seriously affected because the housewife,



1 including my wife, would have that 24% to spend on
2 another item in that same store where you people
3 sell. And so the economy would be bolstered by the
4 secondary industries because there would be that much
5 more. Because women are never through with the payments
6 on articles they buy as they can afford to pay the
7 dollars, but if they translate this into percentages --
8 and we have much more beyond the 24% -- these people
9 could take their 24% and buy another 24% worth of
10 merchandise. I can see where you people agree with
11 us, Mr. Weir, by saying that we are with you, but
12 I can also say this to you, that we would like the
13 people to know exactly what they are paying for a
14 particular item in charges and in interest. And they
15 could find out that by buying the item from the
16 same storekeeper that is selling whatever he may be
17 selling, that they can buy 25% more of that same
18 item in the same year.

19 MR. REILLY: They have to have the
20 money, George. They have to have the money to do it.

21 MR. BUKATOR: I realize that. This
22 permits them to do it without the money. I'll tell
23 you what -- I haven't been able to persuade my wife
24 not to buy this way so I'm not going to sell this
25 Committee. (Laughter)

26 If this particular group who are just
27 as interested in serving the public as we are, so
28 they say in the last sentence here, would reveal to the
29 public what more they could get for their money if
30 they had that interest to invest in merchandise rather



1 than to pay it to interest and finance companies,
2 your country would be bolstered, your economy would
3 be bolstered rather than injured. So we disagree
4 on that particular point.

5 MR. WEIR: Mr. Bukator, oddly enough
6 I don't think we do disagree. I think we are just
7 misunderstanding each other.

8 MR. BUKATOR: I never thought so.

9 MR. WEIR: I can tell you right now
10 the retail merchants of Ontario would welcome that, to
11 be able to reduce their service charges and to have
12 that increased purchasing power go into merchandising.
13 I can tell you we are all on the same street. Now
14 when you speak, sir, of 24%, you look at that \$5.00.
15 I can tell you that no store that we have anything
16 to do with can afford to carry a man's account of
17 \$5.00 at .10¢ per month.

18 MR. BUKATOR: We may take it a step
19 further, Mr. Weir, if you like. There are very few
20 accounts that stay at \$5.00 a month.

21 MR. WEIR: When you go up this area
22 of the charge, of course, disappears. What I am
23 saying, sir, by quoting things like saying 24% per
24 month that the housewife would have -- or 24% per
25 annum -- is meaningless. That extra dime is a loss
26 to the merchant. He would be pleased not to have to
27 charge, it's simply he would feel that he was unfair
28 to you to give you something for nothing in this area
29 who has credit, against the man who pays cash, because
30 then the cash purchaser has to subsidize these people.



1 Somehow the merchant has to get back his cost of doing
2 business. If you gave everybody credit at no cost or
3 a very nominal cost then the cash purchaser is going to
4 subsidize the credit purchaser and there is not going to
5 be any more money to spend. I can tell you and I
6 have no hesitation in saying that every retail merchant
7 for whom I speak would be delighted if by better
8 accounting, more mechanics and things of this kind these
9 service charges could, in fact, be reduced. They are
10 not in the business of trying to do more than cover their
11 costs in this area.

12 MR. BUKATOR: We realize this. As a
13 matter of fact we are dealing with two very reputable
14 groups, so there is no argument there. There are others
15 who may not be toeing the mark quite as well as these
16 two groups who happen to be here this afternoon. And
17 they are the culprits we are trying to catch up with.

18 Could you tell me what percentage of
19 retailing is done by your members?

20 MR. WEIR: I'll have to ask Mr. McKichan
21 that one. Could you tell us what that is?

22 MR. MCKICHAN: Nationally we believe
23 that the members of the Retail Council do something less
24 than 30% of the retail credit business. This is retail
25 store credit. A great percentage of the retail business
26 is not done on credit terms, of course, such as practi-
27 cally all the groceries, which comes to a very large
28 percentage of retail trade.

29 MR. MACDONALD: That is on a national
30 basis, this 30%?



MR. BUKATOR: You say you do handle nationally 30%, so there is 70% to be dealt with?

MR. MACDONALD: What percentage is groceries?

MR. McKICHAN: I wouldn't like to
answer that question, but I would be happy to
refer you to --

MR. WEIR: What's that question,
please?

MR. BUKATOR: The question is, what percentage is groceries. I'm curious to find out if 30% is done by these members, then you take out your grocery retailing, what percentage of the overall, annual retailing in Canada is represented by the membership of these companies?

MR. WEIR: I am told by Mr. McKichan
that we do not in this room have these figures
but we could get them for the Chairman and you, sir.
We do understand they are available to certain --

MR. MACDONALD: Part of your figures are groceries too?

MR. MCKITCHAN: Yes, they are.

THE CHAIRMAN: Any more questions,

MR. BUKATOR: I still feel that the calculation that I heard this morning, although Mr. Sedgwick cleared that point up afterwards -- if it had been a little clearer to me maybe I wouldn't have gone out quite so far on the limb. I was thinking of the housewife having another 24% a year to spend on



1 our economy and there are cases, I believe, where they
2 have that and plus, we have had other merchants such
3 as you people here who have clipped the customer
4 to the point of 87½%.

5 MR. McKICHAN: Sir, I am aware -- I
6 don't have any brief for those fellows, thank you.

7 MR. WEIR: Sir, let's be quite clear
8 on this. We are trying, and I think you will find
9 this universal in this area, we are trying to keep
10 these charges down to the minimum that will not mean
11 that the cash customers subsidize. Now we all go
12 to restaurants and we see the fellow next to you take
13 out some sort of credit card, which we know costs him
14 7 or 8%. You pay \$2.00 for your dinner while he's
15 paying \$1.80. I must confess this personally annoys
16 me, that I am subsidizing the man who doesn't pay
17 for his dinner. Now, we don't generally, our merchants
18 don't think this is good business. We try to bring
19 this out in the open and say to a man: "Here is what
20 it is going to cost you as distinct from your cash
21 sale price", -- not hide it, not pretend to be getting
22 the same price as the cash man.

23 MR. WHICHER: Would you have a public
24 company which you represent, Mr. Weir, who in their
25 annual statement would show their profit or loss figures
26 on credit, such as this.

27 MR. WEIR: Let me put it this way, sir.
28 I'm sure that some of the companies I represent are
29 public companies, yes, but I do not think in their
30 published annual statement they segregate to the point



1 that you could say -- maybe Mr. Irwin could, but
2 certainly I couldn't -- say, "This is the cost and
3 the income from the credit side," because again, sir,
4 you appreciate, like railway accounting, you can
5 always prove that any particular streetcar line loses
6 money or makes money. This is so dependent on internal
7 economy, or the internal economics of auditing. I
8 think I can say to you our members on the whole -- I
9 wouldn't like to say there isn't a scoundrel somewhere
10 but generally speaking our members on the whole are
11 keen to get in the cash, just as the fact that it
12 appears on every statement -- "Please pay up and save
13 the service charge."

14 MR. IRWIN: My experience, to assist
15 you, Mr. Whicher, is that you have to, accountingwise,
16 first on the public statement you never find this
17 anyways, but internally the accounting usually makes
18 a distinction between the recovery on retail
19 conditional sales contracts where there is no doubt
20 even in the merchant's mind that he's earning interest
21 and something else as well. He knows, his internal
22 accounting will reveal to him how much he's making
23 by charging on retail conditional sales contracts.
24 But where he is in a budget account of cycle account,
25 generally speaking he does not determine what his
26 profit, if any, is on that particular operation.

27 MR. BUKATOR: Just one more conclusion
28 before I quit -- certainly your people do not want this
29 revealed in an interest rate along with the dollar
30 cost in any particular billing. You have clearly



1 indicated you wouldn't want that on the statement.

2 MR. WEIR: We think it's impossible.

3 MR. BUKATOR: Mr. Irwin doesn't
4 believe that.

5 MR. WEIR: No, on the contrary he
6 does. It's absolutely impossible. He told this
7 Committee to that effect.

8 MR. BUKATOR: This Committee didn't
9 hear those words --

10 MR. WEIR: Well, you weren't here
11 then. It was quite obvious.

12 MR. IRWIN: I think I tried to make
13 it clear -- this is why I questioned Mr. Weir on
14 this point -- that his brief is directed solely and
15 entirely to, in relation to the cycle accounts, the
16 revolving credit and the budget account -- am I right
17 in that? You are not commenting on any other kind
18 of credit? That's why I asked the questions, to
19 establish that, and therefore I have to say, Mr.
20 Reilly and Mr. Bukator, that in regard to the cycle
21 accounts, it is not mathematically possible --

22 MR. BUKATOR: How about the budget
23 account?

24 MR. IRWIN: Well, the budget account,
25 I think I tried to make clear, that I don't agree
26 with Mr. Weir that the same commentary on the cycle
27 account applies wholly to the budget account. I
28 don't quite agree with you on that because the budget
29 account goes part way towards the retail conditional
30 sales contract where the terms are known at the



1 beginning. The only difference is there is a new
2 contract every time there is a purchase, but it
3 could be calculated.

4 MR. BUKATOR: Mr. Reilly's about
5 half right. (Laughter)

6 MR. REILLY: That's better than
7 average, I'll tell you.

8 THE CHAIRMAN: Carry on.

9 MR. WEIR: I don't wish to get this
10 Committee this afternoon into a detailed, technical
11 distinction between cycle and budget accounts, but
12 I am wondering, Mr. Chairman, if you on the Committee
13 would authorize Mr. Irwin to sit down privately or
14 quietly with an expert or two who are used to and
15 have attempted -- because they have read all sorts
16 of statements and otherwise -- and if they sat down
17 and said what would happen if we had to pick up
18 tomorrow morning and do this. I am wondering if
19 you could authorize Mr. Irwin -- we would be pleased
20 to give him an hour or two hours and at least assist
21 him in the technical area to see the problem. I go
22 no farther, and I hope he will end up --

23 THE CHAIRMAN: We are looking into
24 similar problems and we will ask Mr. Irwin to get
25 more information from you--

26 MR. WEIR: As I say, you will
27 appreciate that the technical details get fairly
28 esoteric, --

29 THE CHAIRMAN: We will ask Mr. Irwin
30 to discuss that with your people and come back and



1 give us a further explanation on this.

2 Mr. Lawrence?

3 MR. LAWRENCE: Well, I appreciate
4 the Council's brief. These people don't have to come
5 before us and I think you sometimes tread on
6 dangerous ground, I think most of the people who
7 come before us tread on dangerous ground by appearing
8 here. You don't have to come and I think I can speak
9 for the whole Committee when I say we appreciate that
10 you do come.

11 There are a couple of things though.
12 I think these budget accounts and even the cycle
13 accounts that you speak of -- I don't know of any
14 great public outcry today against them. I think as
15 long as they are on the smaller amounts nobody is
16 particularly worrying about them. I don't think it
17 is the aim of this Committee to unduly restrict
18 retail trade or even, as far as I know in any event,
19 restrict anybody in any line of endeavour. What we
20 are trying to do is bring out comparative figures
21 in the whole of the cost of money, in every aspect
22 of our economy today. Now you say competition keeps
23 the rates at what they are at the moment, as far as
24 you people are concerned.

25 MR. WEIR: Well, sir, I'm drawing this
26 conclusion in this sense, that Mr. McKichan and I to
27 prepare for this appearance, did obtain a great many
28 of our client's tables comparable to the one on page 4.
29 And we could find very little difference between one
30 store and another. This led us to believe that it must



1 not only be cost, it must also be competition that has
2 generally fixed these rates. When you get into
3 larger amounts -- and I concede that this might not be
4 practical, maybe, for the fellow with \$25.00 balance --
5 but when you get into larger amounts this type of
6 account gives the greatest flexibility to go and
7 purchase your money cheaper somewhere else.

8 MR. LAWRENCE: How do you know it is
9 going to be cheaper someplace else?

10 MR. WEIR: Well, he knows what it is
11 costing him here. He can walk into his bank manager
12 and say, "This is what Mr. X, my merchant, is
13 charging me to carry my refrigerator. I can stop it
14 tomorrow".

15 MR. LAWRENCE: Perhaps he can and
16 perhaps he can't. He may walk into a finance company
17 and get one set of figures thrown at him and he may
18 walk into a bank and get percentage interest thrown
19 at him, he walks into Walker's and get a service
20 charge.

21 MR. WEIR: I have this much brief
22 for the banks, that certainly any bank manager I have
23 ever had any business with would only take one second
24 to tell me whether he was prepared to loan me the
25 money on poorer or better terms without any more than
26 a yes or no. "I can do it for you a little less
27 expensively if you will pay me \$25.00 a month, than
28 you pay if you do no more purchasing and just pay
29 Walker's \$25.00".

30 MR. LAWRENCE: This you are not making



1 money on, if it's a service, if competition alone sets
2 the rate, then you certainly, I assume, have no
3 objection to any governmental regulations setting out
4 some form of comparative rates between all the forms
5 of credit available to the consumer today?

6 MR. WEIR: Sir, if that can be done
7 and leave us our flexibility and our ability to adapt
8 our relationship to our purchasers in the way we are
9 presently adapting, sure. But we have not been able
10 to come up, we couldn't make a suggestion here in this
11 area. If we could have come up, we are keen for
12 competition, I think I can say to you that I represent
13 here the merchants in Canada who are most interested
14 in comparative shopping, competitive situations, who
15 always locate, literally, next to the next largest or
16 even larger merchant.

17 MR. LAWRENCE: You have left out of
18 the brief, though, certain traditional history of this
19 retail trade fad in this country which really has been
20 built on credit and nothing else. Is this not true?
21 Is this peculiar to retail trade, take it even back
22 to Depression days? You didn't pay cash then.

23 MR. WEIR: No, sir. We did start our
24 history in the middle, as it were, because of maybe
25 this tradition. Credit was all buried. The cash
26 customer assisted to pay the cost of the credit as a
27 traditional form.

28 MR. LAWRENCE: When the budget account
29 first appeared -- this business of installments --

30 MR. WEIR: When you are talking



1 about traditional credit, it was supposed to be at
2 least something like ten or twenty or thirty days.
3 You weren't expected to let the grocery bill go to
4 sixty -- maybe it did, or the tailor's account go
5 for six months -- he hoped, at least, that you would
6 pay in thirty, and I am sure that most of his clients
7 did. But when we got to the installments, the first
8 of the big home appliances, the refrigerator, the
9 radio and things of that kind that came in just really
10 before the Depression, and then the history of it came
11 in the middle of the Depression. The merchant did
12 have a tendency, we concede this, to continue to
13 make the cash customer pay for the credit customer,
14 by quoting one price. Now we think the merchants
15 have come a long way in saying to you, "You pay cash
16 it is X, if you want to carry this, if you are going
17 to carry \$100.00, it will cost you \$1.45 the third
18 month, if you are going to carry \$100.00." Now,
19 we say maybe Mr. Walker should be getting \$1.50
20 to be fully not covering the cash customer, maybe
21 he should be getting \$1.40. But that's all the play,
22 we say, there is in it, and that this is the best
23 system and if money were cheaper to other people than
24 to the merchant, the merchant welcomes him going to
25 a credit union, going to his bank -- and to be quite
26 frank, sir, I can tell you on these purchases people
27 take these statements to their bank managers and I'm
28 sure in many cases the bank manager can give them a
29 better deal. If you are buying a little item every
30 week, of course not, because there is where our costs



1 are compared and the bank can't compete. If you
2 went in the bank and wanted to change the amount of
3 your loan every few days -- in fact it is one of the
4 reasons the banks have eliminated overdrafts. It is
5 this kind of service, if you like. It permits you
6 to change the amount outstanding every day if you
7 want.

8 MR. LAWRENCE: On these things is
9 it usual to have a ceiling on these budget and cycle
10 accounts?

11 MR. WEIR: Very definitely, sir.

12 MR. LAWRENCE: How much is it?

13 MR. WEIR: Well, it depends on the
14 person.

15 MR. LAWRENCE: On the person?

16 MR. WEIR: Oh, yes. This is where
17 the original credit interview in depth is the basis
18 of starting the thing off and that's why the sales
19 clerk in any purchase over a certain minimum checks
20 with the credit office. What is your account going
21 to be if you add a \$25.00 valise to this account
22 because you have been marked down. Now you may go up
23 and convince her you have just got a new job and
24 you have doubled your income and they are pleased to
25 have you have a little higher credit. It is vital
26 in business that the merchant keep track of you.

27 Now you could get into the merchant and this, of course,
28 creates problems. There are almost no repossession
29 in this business, literally none. In fact there is
30 some question about the legal right to repossess.



MR. LAWRENCE: I'd like to get into the heavy stuff --I mean you have got people like Henry Ferguson, Canadian Tire, Simpson-Sears, -- you are dealing with people who sell fur coats, expensive jewelry, maybe electrical appliances. Are the majority of these things sold on budget or cycle accounts. or what?

MR. WEIR: I great many of them are. I don't have figures in front of me as to whether, for instance, fur coats are bought by people generally on time. I can say a great many of them are. I think the less expensive ones, to be quite frank with you. The large ones tend to be bought on 30 day accounts. He's the type who goes to his bank who buys his wife a \$3,500.00 fur coat.

MR. LAWRENCE: And do these, say Walker Stores service charges, do they -- how do they go on?

MR. WEIR: Well, they go on in about the same order. They come down to -- well we can get you an example of some store that has a longer list --

MR. LAWRENCE: I mean if you were to express it on a percentage per annum basis would it continue to the time?

MR. WEIR: Yes, it would continue to the time, I think, to about a service charge equal to 1% of a high balance per month, for that period. Now I hesitate to say -- you never have



1 twelve times that service charge. You are not
2 like a mortgage company putting its money out on
3 the year. That's why it is genetically or otherwise
4 you just can't get into this as being so much per
5 annum in this type of account. If you have \$1,000.00
6 you are probably going to pay \$10.00 for it.

7 MR. LAWRENCE: That may be true
8 as far as the merchant is concerned, but as far as
9 the consumer is concerned there is a cost of money
10 to him.

11 MR. WEIR: Excepting he is expected
12 to pay, you see, he reduces this. What I am getting
13 at, sir, is, if you buy a \$1,000.00 item and you have
14 roughly 60 days to decide whether you are going to
15 pay cash or not. If you are going not to pay cash
16 it is certainly going to cost you \$10.00 the first
17 service charge applied. If you now pay \$500.00 it
18 is probably going to cost you five and a quarter
19 or something like that for the second period that
20 you leave it unpaid. Now you have paid \$15.00 if
21 you pay it off in four months, approximately. Now
22 that's roughly it.

23 MR. LAWRENCE: Do many of your
24 members immediately turn these accounts over to some
25 sort of a central agency or --

26 MR. WEIR: No, sir, that is not
27 customary in this element of the retail trade. I
28 wouldn't like to say there wasn't one or two very
29 small members that just try to avoid all problems
30 where credit departments -- but they would be less than



1 half of 1% I would say.

2 MR. LAWRENCE: There are organizations
3 that do provide this service to the retailers though,
4 don't they?

5 MR. WEIR: Yes, but let me put it
6 this way: It is not something that the Council
7 members, the Retail Merchants Association would know
8 much more about this aspect of the business because
9 I think I can say to you that of the people that
10 we have discussed this with, none of them do that.
11 They make their own borrowing from a bank or
12 something like that. They do not believe in
13 turning it over to anyone, primarily because no one
14 would want it.

15 THE CHAIRMAN: Mr. MacDonald, any
16 questions?

17 MR. MACDONALD: Well, Mr. Chairman,
18 most of the areas about which I wanted to question
19 have been pretty well exhausted now. But if I may
20 just review the one area that I think is something
21 we have got to come up with an answer on. If you
22 skip the lower amounts here in which I agree with
23 you any calculation is meaningless, and you take
24 from 50 up to 250, your rates of interest, if you
25 translate this into a rate of interest, is going to
26 be 15, 16, 17 or 18%. You say on a large account it
27 can go down as low as 12%.

28 MR. WEIR: I never used any of these
29 figures and you appreciate why, don't you? I will
30 quite concede that your service charge will be, say,



between 1 and $1\frac{1}{2}\%$ on the figures you are talking about, of the figure that appears in the top left corner of the previous balance. Now I'll go that far. To talk about that as 12%, I say, with great respect, sir, is just flamboyant.

MR. MACDONALD: Well, in our search for finding a yardstick so the consumer can make some comparisons, this is our problem and I must say I respect you and your Council's presentation and Mr. Irwin's views, but I'm still just incredulous that you don't make money on it in this department.

MR. WEIR: Well, sir, let me put it this way. I think I'm prepared to -- going direct through Mr. Irwin, I'm sure that he could have discussions with men who are experienced and know something of the costs and how they are made up and I'm sure one of my clients would make available to Mr. Irwin the opportunity for discussion and let him see what the costs are.

MR. IRWIN: Could I just make a correction of what I said so it isn't misunderstood. I didn't say that they didn't make a profit, I just said it is not customary to determine whether they make a profit on the service charge type of charge. If it was required it would probably not prove too much. I made the distinction between the charge for a service charge on a cycle account, accountingwise is treated much differently from the interest charge on a conditional sales contract. In those cases it is done to determine whether they are making a profit



1 on their conditional sales contracts, but ordinarily
2 they don't necessarily try to --

3 MR. MACDONALD: You can borrow
4 your money at 6 or 7% --

5 MR. WEIR: I can't answer that
6 question. I'm assuming that from Mr. Sedgwick's
7 experience, he told me what it cost him.

8 MR. MACDONALD: Let me try to make
9 this clear. I think my figures are very valid. You
10 can borrow your money at 6 or 7%, you are getting
11 15% in your service charges.

12 MR. WEIR: Sir, this is where, when
13 you translate it into 15% -- we are getting, we
14 will say, \$10.00 on \$1,000.00 in the period of a
15 month if there is \$1,000.00 outstanding. But that
16 \$10.00 has to do a lot of things besides indemnify
17 us for the 6%. There is no operation here that is
18 borrowing money here and relending it at difference
19 in interest.

20 MR. IRWIN: If I can make a correction
21 here too. I don't agree with that statement. I
22 think the merchant does know how much money he is
23 putting in as investment in his accounts. You see,
24 he must know, in fact, as an accountant, I say he does
25 know. What he doesn't necessarily do, which he does
26 do in a retail conditional sales contract, is he does
27 make a profit calculation on that operation, but to
28 say that the merchant doesn't know how much money
29 he is borrowing to put out to recover from his
30 customers, is not -- at least I can't agree.



1 MR. WEIR: I'm sorry, I didn't say
2 that. Let me be quite clear. What I say is there
3 is no exercise here on the part of the merchant to
4 get money out in the hands of the public which he
5 borrows at five and loans at seven. That kind of
6 transaction. What I am saying to you is that
7 experience generally, and this has been proven
8 in the United States where there are elaborate reports
9 which you may have seen, with merchants that are
10 in much the same business we are in here, and
11 generally speaking this type of thing is a loss. It
12 has not produced a positive profit. Now the aim
13 of the biggest people in this, and they have all
14 expressed this, is to try and get these service
15 charges at a level that the cash customer is not,
16 in fact, subsidized, but to not put it one dollar
17 over that level. And experience in this United
18 States and we think it is valid in Canada in the
19 same area, establishes beyond paradventure done by
20 the leading accounting firms in the States that for
21 department stores and such as a group, in the United
22 States, in fact the cash customer is subsidizing the
23 credit customer to some small degree. They have not
24 been able to eliminate what I think is the traditional
25 thing where the cash customer does subsidize to
26 some extent.

27 MR. LAWRENCE: They make no money
28 on their delivery service either, as such, as far
29 as accounting is concerned, but they darn well make a
30 healthy profit on the overall business, otherwise they



1 wouldn't be there. And the same with this.

2 MR. IRWIN: If I may read a point
3 here. I think, if I may suggest that the inquiry
4 into the profitability or otherwise of this
5 particular operation is not actually too pertinent to
6 what we are driving at. I think the main point, if I
7 may say so, is that here are people making a charge
8 and in comparison with a lot of other people who
9 are making charges, we are trying to find a common
10 denominator in terms of expression.

11 MR. MACDONALD: Let me not argue
12 this thing any further. I have a few preconceived
13 ideas that you haven't completely destroyed.

14 MR. WEIR: I understand that, Mr.
15 MacDonald. I am always hopeful, I always like to
16 change the mind of the Judge. (Laughter)

17 MR. MACDONALD: I want to try to
18 change yours on the point Mr. Bukator was on now --
19 and perhaps Mr. Reilly's at the same time, but Mr.
20 Reilly is the tough one.

21 I think Mr. Bukator is correct, that
22 if we can get a common standard so that people know
23 that when they are borrowing that consumer charges are
24 15 or 24 or 30 and we can get the public educated
25 to the point that they never go to the 30, they
26 always go to the 24 or they go to the 15, you will
27 have 6 to 15% more money ready to be spent on
28 consumer goods. The net effect of this will be to
29 boost the economy, not to reduce the economy, because
30 I think they are right -- if you had that 6 or 15% on



1 the figures I have given to illustrate, available to
2 be spent on consumer goods, you would have your
3 interest returning that much more. I don't think
4 the wheels of industry turn by putting as much money
5 into the credit machine in Canada as has been going
6 in, the unnecessary amount that is going in.

7 MR. WEIR: Let me put it this way.
8 I agree with that as a basic economic statement. I
9 don't think anyone could quarrel with it. If we
10 could reduce the total cost, and that's why hopefully
11 it may even be reduced further, as I say by better
12 accounting, more machine accounting and things of
13 this kind, will reduce and get these service charges
14 down. We are all on your team in this area. But,
15 and insofar as you can eliminate people who are
16 hoodwinked by those irresponsible people in the
17 business who drain off money unnecessarily, and
18 almost fraudulently, yes, of course, this is going
19 to help the retail merchants. But to characterize
20 this cost, the service charge, as just being something
21 that can be turned in to multiplying the monthly
22 service charge -- the service charge applied at the
23 end of the third month, multiply it by twelve and
24 say that comparison with a neighbour across the way
25 who multiplies it by ten, is, we think, only going
26 to drive the legitimate merchant to try and bury his
27 service charges with the cash customer subsidizing the
28 credit customer.

29 MR. MACDONALD: I agree with you
30 and with Mr. Irwin that the difficulties in your



1 revolving credit and -- almost to the same extent
2 in your budget accounts -- make it difficult if
3 not impossible. That still leaves us with the
4 problem and, I suggest, it may still even leave you
5 with the problem.

6 MR. WEIR: Certainly.

7 MR. MACDONALD: So maybe we have
8 to find another common standard. Now interest rate
9 is the only common standard we have up to the
10 present time and this is what we are searching for.

11 MR. WEIR: And, sir, we are on
12 your team and I have those gentlemen sitting there and
13 every one of them will devote as much time as
14 necessary to try and help this Committee to find
15 any common standard that is workable and we will
16 achieve the basic economic purpose of reducing, in
17 fact, the cost of this operation.

18 MR. MACDONALD: Mr. Chairman, my
19 other question, if I understood correctly Mr. Weir's
20 comment earlier, do I take it that none of your
21 members sells upon a straight installment basis,
22 apart from the revolving credit or the budgetary
23 thing?

24 MR. WEIR: I don't want to say none,
25 sir, but none that I have available here. I'm
26 afraid everybody who has a sophisticated operation, and
27 that's the men who are represented here, all have
28 this add-on or the cycle account.

29 THE CHAIRMAN: Mr. Oliver?

30 MR. OLIVER: I am forced to make



1 this comment, Mr. Chairman, that the total cost
2 of carrying these credit services is made up of a
3 number of parts. For instance there is unquestionably
4 the cost of accounting. That's one of the costs.
5 The cost of administrating and trying to collect.
6 Now it seems to me that the merchants, the members
7 of your association must surely know at the end of
8 a year's operation what amount of money that they
9 have had to expend to carry this credit operation
10 and how much they have had to pay for that money
11 during that period of time. Now I can't see how it
12 is so difficult to determine what would be a proper
13 interest rate for the money that was used in the
14 business during that period.

15 MR. WEIR: Oh, sir, if you can help
16 us, if you can get the bank to loan us the money
17 at some nice solid fixed rate I'm sure every merchant
18 will welcome that. As you know some of our members
19 pay a lot more than others for their basic money.

20 MR. OLIVER: Well if they do it
21 would have to be reflected --

22 MR. WEIR: Well, where the difficulty
23 is, you see, they are in a competitive world and
24 if they got these charges that are shown on page 4
25 down to the point that reflected, say, the money
26 cost of the poorest borrower, the marginal borrower,
27 he is certainly, his cash customers are subsidizing
28 his credit. These tables are, you might say, the
29 levels of the pretty efficient merchant.

30 MR. OLIVER: Well in spite of all



1 that has been said this afternoon I can't yet see
2 why you couldn't state on the agreement what the
3 interest rate is going to be and alongside of that
4 that if the pure interest for the cost of money,
5 that's another column which said what the other
6 costs involved were going to be. I mean --

7 MR. WEIR: We can't forget those
8 other costs, sir. We don't know whether you are
9 going to make --

10 MR. OLIVER: You say at the top
11 of page 9 the amount of credit services charges. I
12 mean you are willing to indicate what the charges
13 are going to be apparently --

14 MR. WEIR: No, sir, I'm sorry, I
15 can't predict the charges for any individual account.
16 One man comes in and buys a \$500.00 article and
17 only has two other transactions in the period.
18 Another man builds up \$1,000.00 in 60 little
19 transactions. Our costs in those two different
20 cases are as different as day and night.

21 MR. WHICHER: But you have the
22 statistical experience --

23 MR. WEIR: I could get you one
24 merchant who could go and work out some aspect, of
25 course, but that's not going to -- is that going to
26 help you if you are one of the inexpensive people
27 who just borrows a large sum? What you will do is
28 go to your bank.

29 MR. WHICHER: Surely if I go to
30 the bank and make six different loans in a 60 day



1 period, the interest rate would be exactly the
2 same, exactly the same, if it's on a demand loan.

3 MR. WEIR: Let me put it this way:
4 I don't know how welcome you are at the bank if
5 you make six small loans in a 60 day period.

6 MR. WHICHER: All right, six big
7 loans, anything you want.

8 MR. WEIR: And I can tell you
9 right now that I am sure many merchants in Ontario,
10 if you were going to make six meagre purchases in
11 the next 60 days, will discuss some special plan
12 to meet your situation, of course. Just as the
13 bank will, but we are talking now about trying
14 to help the little man who goes in to purchase and
15 to see up here, "Service charge .20¢ per purchase
16 plus \$1.00" -- something of this kind. To be
17 quite frank I don't think it's going to help him
18 as much as saying to him, simply, "If you have got
19 \$100.00 up there you are going to have to pay \$1.60
20 if you don't pay it in the next 30 days."

21 MR. LAWRENCE: Made up of what?

22 MR. WEIR: This is a charge the
23 store makes --

24 MR. LAWRENCE: An overall charge.

25 MR. WEIR: I don't think it would
26 help him to itemize it, to the individual.

27 MR. LAWRENCE: I certainly think it
28 would.

29 MR. WEIR: Well, now, sir, can I
30 discuss that for just a moment? Let's assume you go



1 to the store and you find instead of \$1.60 being
2 written down there it is \$1.00 plus .30¢ for each
3 item, that's two items that you have and you are
4 going to pay \$1.00. Now if you make it three
5 items you are going to pay another .30¢ so you
6 are going to raise that from \$1.60 to \$1.90. Now
7 I don't see how this is going to help you nearly
8 as much as knowing that if you don't pay \$100.00
9 in this next 30 days or don't go and borrow it
10 somewhere else cheaper than \$1.60, then you are
11 going to pay \$1.60 service charge. To be quite
12 frank we think this is the plainest, simplest and
13 gives you the best chance to go and compare it
14 because your cash price is clear and unequivocal
15 and you have got time. You are not asked to make
16 up your mind when you are standing in front of the
17 sales clerk whether you will pay this or not. You
18 get 45 to 60 days to decide whether you will take
19 it out of the holiday you were going to have,
20 whether you will borrow it somewhere else, what you
21 will do.

22 MR. OLIVER: Why can't you say
23 interest is 16% after 60 days. That's what you are
24 saying here.

25 MR. WEIR: Well, sir, I'll tell you
26 this, because our neighbour will say interest at
27 5% after 60 days and bury these charges on his cash
28 customers or in the merchandise.

29 MR. LAWRENCE: Or add on service
30 costs.



1 MR. OLIVER: If you can't tell us
2 whether there is a profit and loss on this --

3 MR. WEIR: I am telling you, sir.
4 I'm sorry, I've repeated it four times and I can tell
5 you on the authority of the leading merchants in this
6 City, I can tell you that an overall --

7 MR. OLIVER: All right, you can tell
8 us there is a loss on it, therefore isn't the cash
9 customer subsidizing it?

10 MR. WEIR: I said that sir, that it
11 is the aim of the merchant that his level of charge
12 should get at least to the point where it carries
13 itself. I am saying that I think if we have to make
14 a generalization I can, I have to say to you that
15 experience would indicate that there is some small
16 fraction under that at the moment. That doesn't mean
17 that one particular merchant who is very efficient
18 at handling this and has customers who buy big items
19 rather than small items, but may not be able in his
20 internal accounting to show a profit on about this level.
21 I can't speak for every individual, but I can tell you
22 that I think, we all think, that on the average across
23 Ontario at the moment, we have to say there is some
24 slight -- we hope it is very slight -- subsidization of
25 the cash customer.

26 MR. OLIVER: You know, Mr. Weir, when
27 you borrow this money, I presume, at 6 or 7% --

28 MR. WEIR: Well you see, sir, I've
29 got such a variety --

30 MR. OLIVER: We are talking across the



1 board.

2 MR. WEIR: Most of the merchants
3 would be indebted to their banks, so they are borrowing
4 money, yes.

5 MR. OLIVER: What I wanted to get at
6 was what rate of interest would you generally apply
7 in this credit service cost. If he borrows \$1,000.00
8 a month, what does he figure into the service charge?

9 MR. WEIR: If he figures his cost,
10 sir, he figures it's 6. When I'm talking about cost
11 I am assuming he is taking his one element of cost,
12 the average cost of his money in the accounting
13 period. He may have had some loans at 5 and some
14 at 6. He would have an average cost in the accounting
15 period on the money he borrowed.

16 MR. OLIVER: Let's assume that for
17 the moment. Now, when he transfers this into this
18 service charge the customer pays, how would it be
19 in relation to the 6 or 7% he borrows the money for?

20 MR. WEIR: It's one of his costs, sir.

21 MR. OLIVER: I know that, but what
22 would it be -- 10%, 15%?

23 MR. WEIR: If he's working out his
24 costs he would transfer the 6%. Well, sir, I can't
25 speak for every merchant. I can tell you that those
26 who are examining their costs and who I discussed this
27 with, transfer it at their average cost of money in
28 the accounting period they are studying. I think
29 Mr. Irwin will confirm this would be the way you work
30 out your cost in this area.



1 MR. OLIVER: You mean you don't borrow
2 at one figure and lend at another?

3 MR. WEIR: No, sir.

4 MR. OLIVER: That's accurate, is it?

5 MR. WEIR: Yes, sir. You are working
6 out the costs, and the figures I gave of costs are
7 based on the actual cost of money, not some notional
8 cost.

9 MR. MACDONALD: Mr. Weir, if you had
10 come before this Committee and you are borrowing at
11 six and your service charge is calculated out -- you
12 are unhappy about that, but they calculate it out
13 as an average of 15 -- if you came before this
14 Committee and said that you were making about 2% --
15 in other words, our administrative costs are about 7%,
16 our costs are 6. You are making about 2%. That's
17 all the margin. I could believe you there. I could
18 believe you. But I'm sorry, I'll have to take another
19 two or three weeks to absorb this before I am convinced
20 you are losing on this.

21 MR. WEIR: Let's be clear --

22 MR. MACDONALD: Let me just add this
23 one more thing. I agree it's beside the point -- this
24 is chicken feed compared to what we are really trying
25 to get at in this Committee -- but my feeling, quite
26 frankly, is that you have destroyed your case by
27 exaggerating it.

28 MR. WEIR: I don't have and have not
29 personally inspected the books of my clients. I rely on
30 --



1 THE CHAIRMAN: I think we have pursued
2 this far enough.

3 MR. WEIR: I would like, if I may,
4 sir, I would like with your permission to briefly
5 answer Mr. MacDonald.

6 THE CHAIRMAN: I am having great
7 difficulty here keeping Mr. White in line. (Laughter).

8 MR. WEIR: Let me just tell you, Mr.
9 MacDonald, that certainly years ago there was a loss
10 because it was considered a loss leader end of the
11 business. Now, recent studies in the United States
12 of a large group of large merchants indicates that
13 that subsidy has not been completely eliminated in
14 the United States. Now that's why we cannot say to
15 you that there is absolutely no subsidy of the cash
16 customer for the credit customer. On the other hand,
17 I think I said before and I say again, if individual
18 merchants who are highly efficient and have a high
19 level of individual purchase average, may well be
20 making 1 or 2 or some such percent on this. I can't --
21 I can only tell you what we think is the situation in

22 MR. MACDONALD: It's just possible
23 that the cash customer is carrying the credit customer
24 and that the company is also making 2%.

25 MR. WEIR: Oh, no, sir. When you are
26 trying to measure cost, we are not trying to say if
27 we didn't have this plan that sales would be lower and
28 that's a different cost. I wasn't talking about cost
29 accounting in that sense of saying, "Well we've got a
30 10% increase overall in merchandise, so we have got to



1 allocate some of that to this department." I was
2 talking about costs of this department isolated from
3 all other departments. That's when I said we think
4 there is a small loss.

5 MR. OLIVER: I just wanted to ask
6 this one question. Primarily in the discussion I
7 think it is admitted that there is a loss of about
8 half of 1%, would you say?

9 MR. WEIR: Oh, now we are talking
10 about loss on collections. Yes, sir.

11 MR. OLIVER: Is that reflected --

12 MR. WEIR: That would be included in
13 the cost of doing business.

14 MR. OLIVER: Is that reflected back
15 into the service charge?

16 MR. WEIR: Oh, no, sir. That's part
17 of the cost of operating that department.

18 MR. WHICHER: What did you do before
19 you had these accounts on losses?

20 MR. WEIR: I think for the majority
21 of my customers there has been some form of credit and
22 it has been absorbed one way or another.

23 THE CHAIRMAN: Mr. White.

24 MR. WHITE: Mr. Weir I would like to
25 take a couple of minutes to refer specifically to
26 several suggestions in this brief, then I want to
27 get very clear agreement on several items and then
28 I'm going to offer a suggested way out of this dilemma
29 of applying an interest rate to this type of account.

30 Now starting with the brief proper,



1 page 8, paragraph 22, the last sentence in that second
2 phrase there: "You are entitled to pay off in advance
3 the balance due at any time without notice or bonus.
4 Now do I understand that word bonus refers to service
5 charges and if there were a charge made for opening
6 the account and if the account were paid, let's say
7 halfway through the term, would you then expect half
8 of the initial service charge to be remitted?

9 MR. WEIR: Let me put it this way. I
10 wouldn't like to say whether it should be identical --

11 MR. WHITE: How is it working in
12 New York, if this came from there -- this legislation?

13 MR. WEIR: There is no service charge
14 there, generally speaking --

15 MR. WHITE: The service charges are --

16 MR. WEIR: New York has two sets
17 of laws. One set that applies to -- more than two, I
18 shouldn't say that -- they have a variety, but in
19 general for the retail merchants there are two areas.
20 You can operate a cycle account and there is a set of
21 rules that apply to that. You can operate a budget
22 account with add-ons and another set of rules apply to
23 that. Now on the cycle account it is clear by the New
24 York law that you may pay off whatever is showing in
25 your account without any further charge at any time.

26 MR. WHITE: I assume then there can't
27 be a heavy initial charge for opening that account? It
28 would destroy the purpose of this, wouldn't it?

29 MR. WEIR: You see, there is a cost of
30 this -- you have to pay other credit sources for the



1 information about the customer. Now, if in fact he
2 doesn't operate the account you have suffered that loss
3 and you don't collect anything for it. If he only
4 buys one small item and pays it off in 30 days and
5 never comes back to your store, you just have to charge
6 that to promotion.

7 MR. WHITE: Well the part here, sir,
8 if this worked very efficiently, and likely does so,
9 the regulations must make crystal clear that these
10 service charges are on a monthly basis, that there are
11 no heavy charges in the initial period.

12 MR. WEIR: I'm sure the New York
13 regulations do this.

14 MR. WHITE: Now, number 2, in paragraph
15 25: "All contracts should forbid any lien or chattel
16 mortgage on any goods except those purchased under
17 the contract." I understand this legislation is
18 enforced in some Provinces of Canada. Is that right?

19 MR. WEIR: I think that is true.

20 MR. WHITE: Which Provinces are they?

21 MR. WEIR: Alberta.

22 MR. WHITE: Is that the only Province?

23 MR. WEIR: It's the only one I know
24 of offhand, sir, but I don't want to say that I'm so
25 familiar with all ten Provinces and the legislation
26 this year. There has been a lot of new legislation
27 this year.

28 MR. WHITE: And then in paragraph 25C:
29 "Any repossession of the goods after two-thirds of
30 the total price has been paid, if the value of the goods



1 originally purchased is less than \$500.00." Now is
2 this suggestion perfectly acceptable to all of your
3 members?

4 MR. WEIR: So I understand, sir. We
5 circulated this to all of them.

6 MR. WHITE: And do you happen to know
7 if any Province in Canada has this legislation on its
8 books?

9 MR. WEIR: Not that we know of.

10 MR. WHITE: But this is in effect in
11 the State of New York?

12 MR. WEIR: Well, I don't want to
13 say it is exactly \$500.00 or it is exactly two-thirds,
14 but it is comparable.

15 MR. WHITE: Very good. Now, Mr. Weir,
16 we are not concerned here with interest, we are
17 not concerned with the pure economic definition of
18 that word, but we are concerned with the cost of credit
19 to consumers, as the name of our Select Committee would
20 indicate. If the gross national product in Canada
21 were 42 billion dollars, the retail industry
22 undoubtedly accounts for many billions. Does your
23 colleague have that figure? Do you know offhand
24 what the total retail volume is in Canada?

25 MR. MCKICHAN: I don't have it with
26 me at the moment.

27 MR. WHITE: Would it be about 10 billion
28 dollars?

29 MR. MCKICHAN: I think the figure
30 is \$18,443,000,000.



1 MR. WHITE: \$18 billion. Now, sir,
2 will you concede unconditionally that a substantial
3 portion of that very large volume is done on a credit
4 basis?

5 MR. WEIR: Let me put it this way, sir.
6 When we get into figures like --

7 MR. WHITE: Yes or not?

8 MR. WEIR: I can't answer that
9 question. I will try and get an answer for you. My
10 experience doesn't extend to the point where I could
11 answer that. I'll try and get it answered as to
12 what percent of 18 billion is on --

13 MR. WHITE: I don't care about the
14 percentage. I'm saying this gentleman informed us
15 that total retail sales in Canada are \$18 billion.
16 Now, assuming that's correct, will you concede that
17 a significant amount of money -- by this I mean hundreds
18 of millions of dollars or more -- is done on the basis
19 of credit, extended to the customers of these retailers?

20 MR. WEIR: No, sir, I'm sorry. I
21 don't know how we compare with all the credit purchasing
22 there is by, say, in a business sense -- one business
23 buying from another for production machinery,
24 automobiles, all these things, farm equipment.

25 MR. WHITE: Mr. Weir, assuming for a
26 moment this gentleman is correct at that \$18 billion
27 is done at retail. Will you not concede that -- you
28 will concede that some portion of that modest amount
29 of money is on a credit basis?

30 MR. WEIR: Oh, yes, sir. Some very



1 large portion. How much of it is retail merchants
2 that I represent of this group, I --

3 MR. WHITE: I don't care about that.

4 I only want you to admit now that the retail trade
5 is a very large granter of credit?

6 MR. WEIR: Oh, very, I will concede
7 that.

8 MR. WHITE: Now you will likewise
9 acknowledge that there are certain costs attendant
10 upon this credit as offered to retail customers?

11 MR. WEIR: Yes, sir, very extensive --
12 accounting costs, billing costs, all of these costs.

13 MR. WHITE: And these costs, of
14 course, from the consumer point of view are
15 incorporated in one charge which you choose to call
16 a service charge?

17 MR. WEIR: Yes, that's right.

18 MR. WHITE: Now the consumer does not
19 care what portion of those costs are pure economic
20 interest. Nor does he care whether company A charged
21 him, let's say 16% interest, is making a profit of 10%
22 or losing 10%. That is not his primary concern. That
23 has to do with the efficiency of the firm. So we are
24 concerned here only with those charges from the
25 consumer point of view and the efficiency or lack of
26 efficiency on the part of the firm is not our concern.
27 So you conceded that a very substantial portion of
28 this very large amount of money is done on a credit
29 basis and there are costs attendant upon this which
30 are charged to the consumer.



MR. WEIR: Mr. White, when you repeat, of course -- I say that I concede that the retail merchants of Ontario have very large outstanding balances on credit sales. How that relates to \$18 billion I haven't a clue.

MR. WHITE: Well, couldn't your colleague or some of your friends tell us what portion of that \$18 billion is done on a credit basis?

MR. MCKICHAN: Well, I have some figures here which I think are relative to this. These are figures from the Dominion Bureau of Statistics and they provide that the total balance of credit outstanding at the end of May, 1964, and that figure for department stores was \$419 million. For furniture and appliance stores \$189 million. And this compares with loans from the chartered banks of \$419 million to the home improvement category one million, in other categories \$1,592 million. On loans from finance companies were \$916 million for consumer goods, \$515 under the commercial heading. From small loan companies cash loans \$772 million and installment credit \$48 million.

MR. WHITE: Very good. So that proves what I have been trying to establish that the retail trade in Canada is a very large granter of credit and there are service charges charged to the customer in some of this credit extended. And that, of course, is why we think we have a very legitimate interest in the way in which this type of business is carried on.

MR. WEIR: I hope we made that clear,



1 you and I both have a very legitimate interest.

2 MR. WHITE: Now we are agreed. And
3 we are not worrying about interest as such, true
4 economic interest or whatever we may wish to call it.
5 You are in effect lending capital or lending money
6 or granting credit or some such thing and you are
7 charging a cost of credit whether you want to define
8 that as a service charge or as effective interest
9 or whatever it may be.

10 Now economists almost unanimously
11 agree that the market would be improved if the cost
12 of this credit were made known in some simple form
13 like effective interest rates so that the consumer
14 then could compare the price of the merchandise and
15 the price of the money if he elects to buy on a time
16 basis.

17 MR. WEIR: I don't know who these
18 economists are, sir, but I don't think they are very
19 good ones.

20 MR. WHITE: Well, I'm telling you,
21 this is fact.

22 MR. WEIR: Well, sir, I don't have
23 to agree with it.

24 MR. WHITE: I'm not asking you to
25 agree with it.

26 MR. WEIR: I know economists who don't
27 agree with it.

28 MR. WHITE: I will also say that
29 associations interested in consumer purchasing would
30 like to see a disclosure of an effective interest rate



1 which, of course, must be fair for the client, with
2 the same general object in view although they are
3 primarily concerned with the purchaser and not the
4 efficiencies of the market. There are pros and cons,
5 advantages and disadvantages to this type of disclosure
6 of interest. The Committee here has heard a great
7 deal of evidence on both sides of the question and I
8 am quite sure we have yet to make a decision on the
9 matter. If the Committee decided disclosure of
10 interest was in the best interest of the people of
11 the Province, it would be virtually impossible to
12 make an exception for two reasons. If the retail
13 trade on their budget accounts and cyclical accounts
14 were exempted from legislation, it would be thought
15 by many business firms that an inequity had been
16 foisted upon them. This was made very clear to us
17 by a number of lending institutions. Secondly, it would
18 cause distortions in the market because automobile
19 dealers, for instance, or hardgoods retailers who
20 now sell commercial paper to IAC and suchlike, would,
21 in some instances, seek to avoid the legislation by
22 renaming and reorganizing this form of granting of
23 credit and those distortions might be grossly unfair
24 to many existing institutions.

25 So if the Committee decided disclosure
26 of interest was worthwhile and that recommendations to
27 that effect should be made to the government, the
28 retail trades are going to have to be embraced in
29 some fashion. I am in full agreement with you and
30 Mr. Irwin and others who have testified to the point



1 that it is impossible in advance to state the cost
2 of this type of credit as an effective percentage
3 of annual interest.

4 I am wondering if we couldn't
5 accomplish the purpose and avoid the inequity and
6 avoid the distortion by permitting retail stores
7 to use an aggregate historical figure. To give you
8 an example -- while it is impossible for you to say
9 to a customer walking into the store to open up one
10 of these cyclical accounts or is it cycle accounts?

11 MR. WEIR: Cycle, it's all the same.

12 MR. WHITE: One of these cycle
13 accounts, it is impossible for you to say, "This is
14 going to cost you such and such simple annual
15 interest because there are so many variations". You
16 could, nevertheless, inform him, let's say by way
17 of example, that the historical effective interest
18 on that type of account in that particular store
19 over, let us say, the three months ending June 30th,
20 1964, was 16%. Now this calculation would be an
21 extremely simple one. It could be made infrequently.
22 It would provide the consumer with useful information
23 if we assume disclosure of interest is useful. It
24 would avoid the distortions and inequities and I would
25 like you to consider that. I don't want you to
26 fight with me on it because it strikes me you have
27 an excellent brief, very ably presented and you
28 naturally are representing some of the foremost and
29 most reputable firms in Canada. It seems to me that
30 such a disclosure would be very much in their interest,



1 it would only curtail those marginal operators who
2 are attempting to overcharge, using deception and
3 I am just wondering if your members wouldn't find
4 that a very acceptable answer.

5 MR. WEIR: I don't propose to
6 attempt any analysis. This is a new suggestion. I
7 have not had it suggested to me before... it has
8 not been discussed with my experts and I am, therefore,
9 not in a position. I would welcome the opportunity
10 to send to the Chairman a memorandum that you might
11 circulate to the Committee, after considering it in
12 detail. I would ask you to consider only one or
13 two aspects of it. The first is, I take it Mr. Irwin
14 would tell you it is not a simple calculation. It
15 would involve very complex accounting calculations
16 to make a statement.

17 MR. IRWIN: I think I should correct
18 that. As I understand what Mr. White has proposed
19 and something that has not occurred to me and
20 certainly it has merits. I haven't considered it
21 either, but just rapidly thinking the thing out as
22 a problem to a department store, I feel it would
23 not be that difficult because using a simple factoring
24 basis they could quite easily determine the average
25 amount of credit outstanding in a given period and --

26 MR. WEIR: I'm sorry, I misunder-
27 stood --

28 MR. IRWIN: Let me finish. They
29 could also determine the exact amount of the credit
30 charges that had accumulated in the period and make a

1 simple arithmetical calculation and come up with the
2 average return over that period on all those accounts
3 of a percent per annum. No great problem.

4 MR. WEIR: Do I understand correctly,
5 if we look at the form on page 4, do you mean we take
6 the experience of all the accounts, using this form,
7 for three months and work out what, in fact, the
8 service charges in that three months were in terms
9 of a percentage of the total sums outstanding in the
10 accounts. Is that what you mean?

11 MR. IRWIN: Well, factored. It would
12 have to be factored month by month.

13 MR. WEIR: Yes, the average monthly
14 return.

15 MR. IRWIN: There is no great
16 mathematical problem involved.

17 MR. WEIR: All right, sir, but now,
18 just think that out for a moment. That means that
19 you are saying to the man who gets the lowest charge,
20 because he's behind, you are charging him the average
21 of the experience of this store. This is not going to
22 help him. He may be the one who can go to a bank
23 whereas if you reckon in the dollars he pays, it is
24 either cheaper or dearer. I don't follow this as
25 something that is going to help the customer. It may
26 help merchants as against the man who comes to the
27 front door, but -- can I retire at that point on that?
28 I will have to have that examined by people who are
29 mathematically a lot sharper than I am. Offhand it
30 doesn't strike me as effective unless it was done for



1 each rate. Now I can understand your question a little
2 better if you said the experience of this store in
3 the last three months is that people with an outstanding
4 balance of \$5.00 generally pay, or people with \$20.00
5 generally pay. Now if that's your suggestion that's
6 a different suggestion. I don't think it's any
7 better or any poorer, I'm just saying it's a different
8 one and I want to be clear as to which it is.

9 MR. WHITE: Well, I propose the
10 simplest solution to you so it is readily comprehended
11 and we might get --

12 MR. WEIR: All right. I examined one
13 on a store basis of an average monthly -- that's
14 what you mean by factoring, taking the monthly rather
15 than the three monthly --

16 The next thing you do, if you want
17 to compete in this area, and there will be some people
18 -- I hope they aren't members of our association, but
19 there will be some merchants who are marginal, who
20 are keen to do this as a prop in competition and the
21 first thing they will do is they will cut their charges
22 and they will find the difference in the cost of
23 merchandise. This is --

24 MR. WHITE: The market looks after
25 that, Mr. Weir.

26 MR. WEIR: Mr. Chairman, the market
27 is not that --

28 MR. IRWIN: Mr. Weir, Mr. White hasn't
29 asked this, but may I ask this: Would you also comment
30 on your own suggestion of working out this factored



1 rate for each of the echelons on the chart?

2 MR. WEIR: I'm sorry I can't comment.

3 I can say me people are convinced you would drive
4 it underground, but I can't say beyond the fact
5 that if people were advising me, telling me that
6 every time you put competition in this form in this
7 area you promptly will have the added (rest inaudible).

8 MR. WHITE: Well the answer basically
9 is the fact that we will instruct the school children
10 of the Province so that they will know what interest
11 there is and be able to make the rather simple
12 computations and to know that price and terms are
13 part and parcel of the cost of that merchandise.

14 MR. WEIR: I'm not quarreling with
15 education. I have found that it's very hard for me
16 to convey what I think is an understanding of it.

17 MR. WHITE: But by minimizing the
18 information available and the cost of credit is not
19 the way to improve the market.

20 MR. MACDONALD: Mr. Chairman, may
21 I just make one brief comment on this. I hope Mr.
22 Weir and his colleagues will treat these periods
23 when you look into it because I was rather interested
24 in adding up those credit figures that were given to
25 us, it amounts to just under \$5 billion, which means
26 to say that on \$18 billion over the year, if this is
27 the end of May of that year which is represented by
28 \$5 billion, is 27% of all your sales. Now every
29 percent saved is \$50 million.

30 MR. WEIR: Your over my head.



1 MR. MACDONALD: I think it's very
2 simple. Five million dollars is out on credit, on
3 retail credit, of the \$18 billion in that particular
4 month.

5 MR. WEIR: I thought the figure was
6 \$518 million would be outstanding, was the total
7 money owed to department and furniture stores at
8 the end of a particular month.

9 MR. MACDONALD: I was taking the
10 total amount of credit sales. Now some of this may
11 not be for retail purposes --

12 MR. HIGGINS: (Inaudible)

13 MR. WEIR: The retail only shows
14 up to this 518 out of a total of --

15 MR. MACDONALD: That's just department
16 stores?

17 MR. WEIR: No that's department
18 stores and furniture and appliance stores.

19 MR. HIGGINS: (Inaudible)

20 THE CHAIRMAN: Well we will endeavour
21 to get these. Mr. Kerr?

22 MR. KERR: Mr. Chairman, dealing with
23 Mr. White's point, Mr. Weir, on page 5 you explain
24 the procedure when you say the interviewer discusses
25 and explains the contract. I was just wondering if
26 any of your Council members have arrived at any con-
27 clusion in arranging for these time payment programmes
28 whether or not there is a definite interest in the
29 interest rate being charged or is the purchaser, who
30 is for the most part the housewife, more interested in



1 the actual cost, that is the overall cost in simple
2 figures, not only on a monthly basis but probably in
3 the end result, if they are arranging it for a year
4 or two year period of time. For example, where you
5 are not showing the true interest rate do you have
6 inquiries to what this amounts to and if you do
7 is it making any difference when they know the total
8 cost the particular item is going to cost.

9 MR. WEIR: I could be quite frank --

10 MR. KERR: I was just wondering if
11 you have anybody here in the room that has operated
12 a credit department where they have interviewed a
13 number of these people and the general questions that
14 they get from the customer. I know that the inter-
15 viewer does most of the talking usually, but where
16 it boils down to the point where a person is conscious
17 and the question of going to a bank where he knows
18 the interest rate or arranging a programme here, does
19 it make a difference to him when he is given some
20 idea of what the interest might be over, as far as
21 his particular purchase is concerned.

22 MR. WEIR: I will get you someone
23 if you prefer it first-hand, but I think from my
24 discussions, and we discussed this point, it has been
25 the subject of some comment in general periodicals
26 and such, I think I can say to you the customer in the
27 credit interview is primarily concerned that the credit
28 is going to be offered to him, 80% of their interest is,
29 "Can I get \$600.00 of credit, or can my account go
30 up to \$600.00". Then the interviewer produces a book



1 which sets out the charges and then explains that, of
2 course, if they operate by making their payments within
3 the first billing period they pay nothing. I think
4 it is fair to say that our general experience does
5 not indicate any particular interest on the part of
6 the customer in saying, "Well, I can get it cheaper --
7 \$40.00 or \$30.00 somewhere else". And I don't think,
8 I am instructed there is little or no real inquiry
9 beyond asking, very often, "If I pay \$20.00 a month
10 on this, what is it going to cost me beyond the
11 cash price?" In other words, they like to know, if
12 they are buying a \$200.00 refrigerator, is the total
13 of the service charges. "If I give you the plan
14 now it is going to work out to \$40.00 or \$30.00."
15 That's done for them and they are quite interested
16 in that frequently.

17 MR. KERR: This is, I take it, what
18 they want to know -- how much do I pay now, how
19 much extra if I take six months, eight months, ten
20 months, twelve months. This is a type of conditional
21 sale or lien type contract, isn't it? It has
22 certain repossession --

23 MR. WEIR: Yes. Let me put it this
24 way, not the cycle account as such isn't a --

25 MR. KERR: I'm thinking of a budget
26 account.

27 MR. WEIR: The budget purports to
28 be. Repossessions are virtually nil and, as I say,
29 I leave it to your Counsel to tell you how good the
30 lien is.



1 MR. KERR: There is no question then
2 -- I'm thinking of some of these big companies that
3 have their own company within a company operating
4 credit departments -- there is no question of this
5 as far as you are concerned. Do you do that?

6 MR. WEIR: There are some companies --
7 companies within companies.

8 MR. KERR: Does the customer always
9 deal with the original merchant as is?

10 MR. WEIR: Yes, he deals with the
11 original merchant for all practical purposes.

12 MR. KERR: If he's not happy with
13 the merchandise, so he misses a payment --

14 MR. WEIR: Oh, no, in our business
15 he is dealing not with this -- this isn't the problem --
16 he's going back to the merchant who sold him the
17 goods. And as you know all of the larger stores and
18 a good many, an increasing number of the smaller
19 stores, adjustment on merchandise bought in a
20 department store or a good hardware store or anything
21 of this kind, is not a problem. This is one of the
22 things, for instance, in English legislation, if a
23 sale is consummated in somebody's home you have three
24 days or something to decide. This is not a problem
25 with us. You can go back to any of the leading
26 merchants in Toronto and you say, "I got this and
27 it's scratched" and you will get an adjustment, promptly.
28 This is not a problem.

29 THE CHAIRMAN: Mr. Edwards?

30 MR. EDWARDS: We have heard a lot about



1 the cost of interest and the cost of operating these
2 accounts. I was wondering if the Retail Council had
3 ever considered giving the man 5% off for cash -- he's
4 paying for all these credit accounts, maybe he should
5 get a little more inducement to pay cash to eliminate
6 some of this.

7 MR. WEIR: At least one of our stores
8 gives a small discount if you pay cash in advance.

9 MR. ROWE: That would imply an
10 automatic charge to everybody else.

11 MR. EDWARDS: You are paying it now.

12 MR. WEIR: Mr. Edwards, to you through
13 Mr. Price, I think I can tell you it is the aim -- I'm
14 not saying that in this competitive world it has
15 been perfected, but it is the aim of the retail trade
16 generally to just make this stand on its own feet.
17 I'm not satisfied, I have to admit, that that has
18 been fully achieved in Ontario yet.

19 THE CHAIRMAN: Mr. Reilly?

20 MR. REILLY: Well, Mr. Chairman, I
21 think that our discussion this afternoon has proved
22 that it is very confusing when you deal with percentages
23 and that the average man wants to go out and buy
24 something and if he knows it is going to cost him
25 ten dollars to purchase one hundred dollars over a
26 period of three months or six months or a year, he
27 knows what his cost is per dollar. I think that is
28 the thing that we should perhaps emphasize in this
29 Committee. Now my friend Mr. Bukator has suggested
30 that he is going to advance his wife another ten cents.



1 MR. BUKATOR: Oh, your not being
2 fair. That's par for the course this afternoon.

3 MR. REILLY: I withdraw that then,
4 Mr. Bukator, if you think I'm being unfair because
5 the last person to whom I would like to be unfair is
6 you.

7 MR. BUKATOR: Thank you.

8 MR. REILLY: But you have suggested
9 your wife would then spend 24% extra on this basis.
10 Well, as I look at the table the only charge is .10¢
11 per month, which is a rate of 24%. Because if you
12 were to give her \$240.00, the rate would be between
13 15 and 16%. But the only rate on this chart that
14 gives 24% is the first rate, and that's .10¢ on a
15 balance of \$5.00 per month. That's the only rate
16 that is 24%. So I had concluded that you were going
17 to advance an extra dime for purchases.

18 MR. BUKATOR: Naturally you are
19 wrong as usual because if the lady is going to pay
20 16% more then paying cash might save her a few dollars
21 and buy that item that she has been wanting for years.
22 This is a point we haven't made here this afternoon yet,
23 the very minimums that I hear this afternoon here is
24 a 16% charge --

25 MR. WEIR: Well you see, on that
26 basis this .10¢ represents 24%, but you see how misleading
27 it would be.

28 MR. BUKATOR: You are talking about
29 the larger item when you mention 16% --

30 MR. WEIR: Between 15 and 16%. You



1 see how misleading it can be though if we say to your
2 good lady that you can, under circumstances, save
3 24%, but on the contrary, if you were to say to her
4 you can save .10¢ over a period of 45 to 60 days.
5 That's the difficulty when you consider it from the
6 standpoint of what constitutes interest and what
7 constitutes a dollar purchase charge.

8 MR. REILLY: Now what I would like
9 to find out from you, Mr. Weir, if I could is, is
10 there any other charge in addition to this charge?
11 Is there an opening of an account charge? Do any
12 of your clients charge for opening accounts?

13 MR. WEIR: As far as I know, sir,
14 certainly with all those I have been in contact with,
15 there is no charge made at all if you pay in the first
16 45 to 60 days and then if you let your five dollar
17 balance go, you have another 30 days to pay it and it
18 will cost you ten cents.

19 MR. REILLY: Do you mind if we
20 clarify that one specific point because you have
21 indicated to the Committee that there is no charge
22 is a person used the money up to 31, 32 days, there
23 is a minimum, 31 or 32 days, where there is no
24 charge whatsoever. And then you went on from there
25 up to 45 days and then once up to 58 days.

26 MR. WEIR: It depends on the
27 customer. If you look at the statement following
28 page 3. Assume for the moment, as things work out
29 your billing is the first of the month --

30 MR. REILLY: Right.



1 MR. WEIR: Now, that's --

2 MR. REILLY: What I was after was
3 the maximum. Now is the maximum 58 or 60 days without
4 interest charged? I know the minimum according to you
5 is 31 or 32 days. Now what is the maximum -- is it
6 45 or 60?

7 MR. WEIR: Well, let me put it this
8 way: It would vary from store to store a little but
9 in most stores I think I can say you could get 58, 57
10 days, something in that range if you just happened to
11 buy on the right day with reference to the billing
12 date.

13 MR. IRWIN: You could also get as
14 low as 32 days.

15 MR. REILLY: As low as 32 days.

16 MR. WHICHER: Mr. Weir, this also
17 works the other way, when the stores are buying they
18 get a few days of grace. It's not just the customer.

19 MR. WEIR: Right at the moment I am
20 unfamiliar with the purchasing practices. I don't know.

21 MR. REILLY: It really has nothing
22 to do with this though, Mr. Weir, and under the
23 circumstances I would like to thank you for coming
24 before this Committee and giving us a forthright
25 statement. I think this has clarified a lot as
far as this Committee is concerned, about retail credit.
It has established the fact that here, according to
your confrere there, there is some \$18 billion spent
across Canada nationally in retail credit, of which
might be only \$5 billion at consumer credit level and



1 as you have pointed out to this Committee, there is
2 the possibility of drying up business and having ill
3 effect upon the economy of our country if we try to
4 take away some of this credit. These are some of the
5 things that should be brought forth to the attention
6 of the Committee, that it isn't just a question of
7 saying to the members of the Committee that we will
8 establish an interest rate, if the interest rate is
9 going to have an ill effect upon the consumer
10 eventually, and that's what it will do.

11 THE CHAIRMAN: Mr. Rowe?

12 MR. ROWE: No question, but just a
13 comment. I think the brief was very well presented
14 here but also to further go along with our statement
15 today that these charges of credit will not be driven
16 underground -- that is, if the cash customer is
17 going to subsidize the credit customer, I think it
18 would be a bad situation. Thank you.

19 MR. REILLY: Mr. Chairman, I wonder
20 if Mr. Weir would care to comment on the suggestion
21 made by Mr. White, as far as putting in a charge,
22 a specific charge, the person who did \$5.00 worth
23 of business and the person who did \$100.00 worth of
24 business and they were put on the same basis, one would
25 be subsidized more than the other. The person who
26 did \$5.00 monthly of business and somebody else who
27 did \$100.00 worth of business monthly, if he were placed
28 in the same category as far as the rate of interest
29 or service charge? That was your first suggestion,
30 wasn't it?



MR. WEIR: I think Mr. White was just saying for the purpose of quoting to the customer to comply with some law, you would quote a common percent, but in fact you would charge the customer what it is traditional to charge. Do I understand that correctly, Mr. White.

MR. WHITE: In its simplest form
that would be correct.

MR. ROWE: And you or Mr. Irwin introduced an elaboration which would make it more accurate and which, naturally, would be desirable.

MR. WEIR: Mr. Chairman, if the members have completed, I would like to ask the Chair's direction here. Through Mr. Harcourt I received information that the Committee was very anxious to have Eaton's, Simpson-Sears and Morgans appear before the Committee. I approached them because they have all had their officials taking an extensive part in the preparation of this brief today and they are all members of the Council. I do speak for them. There are officers of each of these three firms present today and they have asked me to say on behalf of them, separately represented, that they concur in the submissions made and to be quite frank, sir, I am now at your disposal as to whether you would need any further representations from them and I'm not certain what form they could take because I can tell you that their views, I think, have been fully represented here.

THE CHAIRMAN: Well, I have a few



1 questions I wanted to ask before we get on to that.

2 I think Mr. Irwin also has a question.

3 We had on our agenda to hear from
4 these individual companies tomorrow, which we propose
5 to do if they can make themselves available here, along
6 with yourself, and then we might have some more specific
7 questions we want to direct to representatives from
8 those companies about their own individual operations.

9 MR. WEIR: That's fine. We will be
10 here tomorrow morning.

11 THE CHAIRMAN: Tomorrow morning, that
12 is the way we have it set up. I have a few questions
13 I would like to ask. The first is, do your customers
14 sometimes complain about the service charge?

15 MR. WEIR: I would have to get
16 instructed on that, sir. Can I answer that in the
17 morning? That's something I have never been told.

18 THE CHAIRMAN: And could you give
19 the Committee some idea on how much it costs to open
20 an account, in dollars?

21 MR. WEIR: Again, sir, I don't think
22 I will have much for you tomorrow because this is
23 something that apparently has not in the past
24 traditionally been isolated as part of the cost. You
25 don't mean the cost to the customer?

26 THE CHAIRMAN: I mean the cost to
27 you of opening an account.

28 MR. WEIR: I don't know how much cost
29 accounting has been done on that. Certainly we might
30 get it for you from one store.



THE CHAIRMAN: And from what we have heard today, is it fair to say you are not making money on the extension of credit to customers?

Let us say it is not your aim to make money?

MR. WEIR: I think we can certainly say it is not our aim, no.

THE CHAIRMAN: In other words, what you are telling us, sir, is you would like more of your customers to pay cash rather than to utilize your credit facilities?

MR. WEIR: Certainly, sir. And as I say the fact, which we find is universal, and I would be pleased to submit evidence to your Counsel -- every store whose accounts we have examined have a note saying: "Please pay and avoid the service charge". Now any firm that was seeking to get an extra two or five or fifty dollars out of their service charges would certainly not do this, remind them to pay up.

MR. SEDGWICK: This is the thing that distinguishes you sharply from the mortgage lender who insists that his money stay out for a period and if you want to pay in advance generally he demands a bonus or --

MR. WEIR: And I understand, sir, in what I might call the one-shot, big item in a store is purchased. If you go in at the end of six months and want to pay up there is no discussion about it. If you pay, you are in fact now returning the money to the organization. But as I say I think this



1 is surprising in many trades that it is universal to
2 ask for the money and not the service charge.

3 THE CHAIRMAN: Is this universal
4 among all your members?

5 MR. WEIR: I won't say that. I will
6 say among all the ones that we examined, the printed
7 statement that went to the customer we found none
8 that didn't have a statement comparable to the one
9 at the bottom of page 4.

10 THE CHAIRMAN: Did you examine the
11 jewelry members of your Council?

12 MR. WEIR: I can't answer that --

13 THE CHAIRMAN: Because certainly at
14 least some individuals have a practice of no cash
15 sales.

16 MR. SEDGWICK: I had that in mind,
17 too.

18 MR. WEIR: Oh yes, sir, but I
19 understand that has actually now virtually been
20 eliminated. I don't want to say there isn't one
21 jewelry store, but I can say to you that the great
22 majority, the biggest volume of department and jewelry
23 stores at the moment have a cash price and a form
24 comparable to the one shown here and would just as soon
25 have your cash.

26 THE CHAIRMAN: The Committee has heard
27 in some fields, sir, that they are encouraging the
28 customers to buy on credit rather than cash. Your
29 situation is just the reverse. Do any of your members
30 give a discount for cash? In your brief you referred --



MR. WEIR: One member I know of --
I happen to know this personally -- gives a discount
for prepayment, for keeping a balance in advance.

THE CHAIRMAN: Certainly years ago it was common to get a substantial discount if you paid cash. It seems to have almost disappeared today.

MR. WEIR: That's right, it has disappeared basically because it's a cash price that is initially ().

THE CHAIRMAN: Just one other thing,
Mr. Weir. I wonder if you would ask the members to
file with the Committee the type of credit charge
schedule, representative numbers, say, such as the
one here?

MR. WEIR: I'll get you four or five by tomorrow morning.

THE CHAIRMAN: We will certainly take you up on your offer of cooperating with Mr. Irwin and letting him work with your men on this and other problems that may be facing the Committee. We have been doing that in other areas too and I'm sure it will be extremely useful.

THE CHAIRMAN: Mr. Irwin, I think, has a question.

MR. IRWIN: I just have one question.
Supposing, let's not argue about whether you would agree with it or not, but take the balance of \$100.00 and a charge of \$1.45 and 60 days has elapsed and that account remains outstanding for a further twelve months. I calculate that this is the equivalent of



1 17.40% per annum if it were expressed that way. Now,
2 just speaking arithmetically, you would expect that --

3 MR. WEIR: Are you treating this as
4 a bad debt collection?

5 MR. IRWIN: No, no, no. This is the
6 rate, the \$1.45 on \$100.00 outstanding balance.

7 MR. WEIR: If a man had a \$100.00
8 balance outstanding for twelve months that would be
9 looked upon as a bad debt.

10 MR. IRWIN: I asked you not to get
11 into -- let's just treat it as an arithmetical
12 proposition. The man did --

13 MR. WEIR: Your arithmetic is much
14 stronger than mine. I haven't measured that out.

15 MR. IRWIN: I'm not asking you whether
16 I am right. I'm saying supposing that were true
17 and \$1.45 was 17.4% per annum if outstanding for twelve
18 months and it was stated as such on the schedule of
19 account. If the schedule showed \$100.00, \$1.45 and
20 then 17.4 -- it is arithmetically true if it was
21 outstanding for 12 months after 60 days.

22 What I am trying to get at is this.
23 I always detect in everyone that comes before the
24 Committee a horror of even thinking in those terms.
25 Why?

26 MR. WEIR: It just would be an
27 inaccurate statement.

28 MR. IRWIN: Would the customer under-
29 stand?

30 MR. WEIR: The customer, I think, would



1 be completely misled.

2 MR. IRWIN: Why?

3 MR. WEIR: Because we are not offering
4 to loan him \$100.00 for twelve months.

5 MR. IRWIN: Oh, but you are. That's
6 his option. Remember you state in your brief that
7 is his option.

8 MR. WEIR: Oh no, sir. He is asked
9 to pay and he is required -- look at the top line --
10 we are only looking at the service charge rate --
11 look at the rate above. If he has \$100.00 outstanding
12 his minimum monthly payment is \$13.00. Now, he's
13 a bad debt for the remaining \$87.00 as soon as he
14 misses that thirteen.

15 MR. IRWIN: All right, let's take
16 it back. Sixty days elapsed and he has been charged
17 \$1.45 and he has now one more month to pay the account.
18 Now then, would that month after the charge is made --
19 if he has had \$100.00 for one month at \$1.45, and that
20 would work out arithmetically at 17.60% per annum if
21 expressed that way. That's all I'm trying to say.

22 MR. WEIR: I agree with that.

23 MR. IRWIN: Would he understand that?

24 MR. WEIR: My people say no.

25 MR. IRWIN: Why not.

26 MR. WEIR: That would only lead to
27 the competitive situation where someone else will write
28 down 6%, adjust the charge accordingly --

29 MR. IRWIN: Excuse me, Mr. Weir, you
30 are getting off into an argument. He would understand



1 that he was being charged 17.40% for one month, surely.

2 MR. WEIR: I can only say that I
3 am instructed that that would more likely mislead and
4 drive credit underground.

5 MR. IRWIN: Well, supposing he went
6 to a bank and he understands that the bank talks in
7 terms of percent per annum. Supposing the bank --

8 MR. WEIR: I don't understand the
9 banks will do that.

10 MR. IRWIN: No, no, no. Supposing
11 he did, he went to the bank and they said they were
12 charging him 17.4% per annum for \$100.00 for a month.
13 Would he understand that?

14 MR. WEIR: Sure. He's in the lending
15 business.

16 MR. IRWIN: In other words, because
17 he is dealing with a merchant he would not understand
18 percent per annum but if he is dealing with a bank
19 he would?

20 MR. WEIR: May I ask a question? I
21 have never heard of a bank that quoted their small
22 loans -- even you go to a bank, they talk about 6%.
23 In fact, I am told, if you take the mathematics of
24 it you are probably paying up to two-thirds more
25 than 6%.

26 MR. IRWIN: It might be of interest
27 to you that we have had banks bring to us their
28 schedules for small loans and they do, in fact, in
29 one case that I know of, not only give the charge but
30 they say these charges represent 11.5% interest per



1 annum. Now all I am trying to say -- now supposing
2 your charges worked out to 11.5% per annum -- just
3 taking your table -- we are not telling you what you
4 should charge, just express it as the extra cost.
5 If the customer would understand when going to a bank
6 and they said, "Here is our schedule and there is our
7 rate", and they would understand it, why would they
8 not understand it when dealing with you?

9 MR. WEIR: Well, sir, I don't know
10 whether they understand it when they go to the bank
11 or not. In my experience -- and I can only speak of
12 my own personal experience with banks -- is they
13 do not quote rates this way.

14 MR. IRWIN: Well, I'm quoting
15 from one that has been submitted here in the brochure
16 which they hand out.

17 MR. REILLY: In terms of bank interest,
18 6% is pretty commonplace.

19 MR. IRWIN: Oh, yes.

20 MR. WEIR: Some firms, you quote their
21 service charge as a percentage of your monthly
22 balance. In other words, I am looking at one at the
23 moment that says from \$500 to \$1,500.00 the service
24 charge is 1.2% per month.

25 MR. IRWIN: I'm not trying to argue
26 with you at all, actually. I find it a puzzle to me
27 that there is a clear distinction. If we are dealing
28 with these people then the customer will understand
29 it, but if we are dealing with merchants they won't
30 understand it.



1 MR. REILLY: Mr. Chairman, maybe I
2 could try to clarify that because --if you don't
3 mind. I think if you go to the bank and it's 6%
4 and if the bank turns around and advertises money
5 at 11.4 or 11.5, psychologically it has an ill effect
6 and the people won't borrow money at 11.4 or 11.5,
7 and if a merchant advertises merchandise at 17.4 or
8 17.5, that psychologically has the wrong effect
9 because they can get bank interest at 6%, and 6%
10 is wrong.

11 MR. IRWIN: In other words, people
12 come to us and say that people won't understand it
13 while my impression is the fact of the matter is they
14 will understand it and it may have a bad effect and
15 that is why people are reluctant to talk in terms
16 of percent per annum. It isn't because they really
17 think, in my view, that people won't understand it.
18 In fact they may understand it too well, the lender
19 may be concerned that he will understand it. This
20 is the point exactly that I wanted to make.

28 MR. WEIR: Mr. Irwin, I want to
29 make it clear that I say, and I don't agree with the
30 submission made that people will understand it and



1 thereby use less credit. I say they will misunderstand
2 it but the unscrupulous will take advantage of this
3 misunderstanding and will, as I say, run ads in the
4 paper at a different rate when it is absolutely
5 meaningless. And I say it is to say that this account
6 totals up to 12% or whatever -- it is a misstatement.
7 I don't say it's mathematically inaccurate, I say
8 it fails to describe the process that is taking
9 place.

10 THE CHAIRMAN: This is a problem
11 for the Committee.

12 MR. IRWIN: Let me say I understand
13 that there are problems connected with the statement
14 of the rate of interest, there are psychological,
15 there are economic, there are political, there are
16 public welfare, there are all kind of them. And there
17 may be ways of beating it. All I am trying to
18 establish is as far as I can see people would under-
19 stand what you meant when you quoted your terms in
20 percent per annum. Now whether it is good, bad or
21 indifferent I don't know, I'm not commenting on that.
22 I just always get a little -- wonder -- I would like
23 to know on what basis people can say that people
24 wouldn't understand when it's quoted that way. I
25 think they would.

26 MR. WEIR: Well, sir, I'll disagree
27 with your statement.

28 MR. IRWIN: You think they wouldn't
29 understand it.

30 MR. WEIR: They couldn't because, as I



1 say, it is a misdescriptive statement. We are not
2 loaning this fellow \$100.00 for twelve months, at
3 all, as a mortgage company is that is saying to
4 you, "You will pay 6% on your loan". They are the
5 only people, as far as I know, that are correctly
6 calling it interest rate, the banks are not, in my
7 experience. Maybe this bank you spoke about is,
8 but certainly the ordinary bank talks about 6%
9 when they don't mean 6%.

10 MR. IRWIN: Please understand me.
11 I am not commenting on anybody's facts. I am only
12 trying to get an opinion as to why people wouldn't
13 understand it.

14 THE CHAIRMAN: Are there any other
15 questions, gentlemen?

16 MR. BUKATOR: Just a point to be
17 cleared up here. I argued along the same lines that
18 Mr. Taylor did earlier in the afternoon -- not Mr.
19 Taylor, Mr. Irwin -- I was arguing along the very
20 same lines when I said that \$1.45 represented 14½%
21 and you calculated it at 17 or better. So I've
22 been put straight. Thank you very much.

23 THE CHAIRMAN: Speaking on behalf
24 of the Committee I would like to say how much we
25 appreciate your coming before the Committee this
26 afternoon with such an excellent brief so ably
27 presented. I don't think we have ever had such a
28 large delegation of men whose time has been taken up
29 on this work today as you have along with you supporting
30 your brief and supporting you. We look forward to



1 hearing from the companies individually tomorrow.
2 I think we all know that in addition to the Retail
3 Council of Canada, we have been hearing from Mr.
4 Moore's group, the Retail Merchants Association of
5 Canada Incorporated and the Retail Merchants of
6 Canada (Ontario) Incorporated who presented their
7 brief in conjunction with the Retail Council of Canada.

8 This meeting is adjourn.

9 MR. WEIR: Just so I'll be clear
10 in the morning. I have already made the statement --
11 I take it you would like their representatives here
12 for questioning?

13 THE CHAIRMAN: That is correct. I
14 thought we had made that clear previously. I understand
15 they do not have briefs but they are here to answer
16 any questions that may come up.

17 If that's all, gentlemen, this meeting
18 is adjourned. We will reconvene at ten in the morning.

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